
Printed by Mr. Madhusudan Dinanath Dalvi at the Indu
Prakash Electric Printing Press, 388, Girgaum Road, Bombay,
and Published by Messrs. Ramchandra Govind & Son, Kalbadevi
Road, Bombay, No. 2.

38.52 crores; so that without having to buy any new gold, we might be able to issue a gold coinage in India more than adequate for all her domestic purposes. and yet leave a considerable margin in the Reserve.

Turning now to the invested portion of the Reserve, we find that the chief ground of attack against the present policy is in connection with that portion of the invested Reserve which is held in sterling securities in London. It cannot be denied that this reserve originates at all because the Indian people have consented to use paper money instead to the extent of the Reserve. It is, therefore, in every sense of the term, their money; and the policy which keeps a growing portion of that reserve in the securities of a distant country can have but scant justification on the plea either of abstract justice or statesmanlike prudence. It is indeed, sometimes alleged that the holdings in the Reserve of other securities, besides those of the Government of India is in perfect accord with one of the most approved maxims of banking. The factors which might cause a run on the Paper Currency are bound to affect, it must be admitted, the securities of the Government of India. But unless we assume that every note in circulation would be brought for conversion in a time of panic:— unless, that is, we assume that there is no need of any paper currency in India—a manifestly impossible assumption—we have no reason to apprehend that the run on the Paper Currency will be so great as to demand a forced sale of the securities in times of panic. The proportion of the securities held in the Reserve to the total circulation was about 20 per cent; and these would have to be sold only after 80 per cent of the notes in circulation had been cashed and the panic even not there allayed. This has merely to be mentioned in order to expose its utter absurdity. Moreover, the best English secu-

TO

A Comrade in Arms

A slight token of camaraderie

sent outside India, while Indian labour in British colonies and other countries is so poorly paid that its remittances to India hardly come up to half a crore a year. Taking only the safer figures on these heads, we find that the excess of "invisible" imports under these heads must be no less than 5 crores a year.

There is, however, a much greater item effecting the exchanges that remains to be noticed. The freight paid to ocean transport corporations, and the Banking Insurance Commissions payable to non-Indian agency engaged in such enterprise, is an item the exact figure of which we are unable to arrive at. The trade returns of India do not give a quantitative idea of all exports and of all imports; so that even a rough determination of freight charge at average freight rates for specific articles is impossible. There are statistics,—no doubt—of the total tonnage of vessels entering and leaving Indian harbours; but that is no indication of the volume of goods carried. The proportion of freight to value in ocean transport is impossible to standardize; so that we cannot say that because the total value of the foreign sea-borne trade of India is Rs. 500 crores, that, therefore, the freight charge at 5 per cent. on an average must be 25 crores. The nearest approach we could make to an idea of the amount annually payable by India under the heading of freight is by totalling up such quantity figures of the principal exports and imports we can lay hold of; work out the average freight rates from the several Indian ports to the principal foreign customers of India; and then total up the amount. By this process we find that the total goods carried being about 10 million tons the amount at the pre-war average rate of 1913-14 would be about Rs. 15 crores by way of freight on the double stream of the foreign sea-borne trade of India; and as much as 75 crores, at the rates prevailing in 1919-20. This huge figure does not attract as much attention as it deserves, probably because while our imports are all registered *inclusive* of the freight charge,

PREFACE.

This work is an attempt to make an up-to-date presentment of the entire system of Indian Currency, Exchange and Banking, and to review all the problems incidental to the main topics. The author has endeavoured to illustrate his meaning by means of comparison, wherever feasible, with the systems prevalent in other countries. He has sought to give point to his criticism by giving concrete measures of Reform *e.g.* Chapter VI in Part I which contains a comprehensive scheme of legislation for the reform—on the principles outlined in the preceding chapters—of the whole system of currency and banking in India; or the concluding chapters in Part III which contain definite schemes for the institution of an Industrial Bank for India and a Land Bank. He trusts the schemes put forth will be taken as an earnest of his desire to obviate the charge of Indians being exclusively engaged in destructive criticism; and at the same time serve to stimulate the government or the leaders of public opinion in India to take in hand some such measures of constructive statesmanship.

Part of the present work dealing with the history of the Indian Currency system has been borrowed from an earlier work of the present writer in collaboration with Prof. M. L. Tammam of the Sydenham College, Bombay, and entitled "Indian Currency and Banking Problem." The text of the Currency Reform Act has also been borrowed from another work. "Sixty Years of Indian Finance;" but the explanations and comments appended have been added for the first time in this work.

K. T. SHAH.

158, Walkeshwar Road,
Bombay, 1st July, 1922.

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AND

BANKING

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INDIAN CURRENCY EXCHANGE AND BANKING.

CHAPTER I.

Some Fundamental Principles of Money Economy.

Writers on Money seem to have taken for granted that the origin of money is to be traced to the difficulty experienced in an arrangement where there is no common article to serve as the generally accepted intermediary for effecting exchanges. Says Alex. Del Mar, (The Science of Money p. 60) :—

“ The earliest form of exchange, that which is peculiar to rudimentary or savage communities, was barter. To remedy those inconveniences of barter which were disclosed by the progress of civilisation, some given commodity of common necessity and production was selected in each community as a rude measure of the value of other commodities. ”

But precisely at what time this discovery of the need for a common, universally acceptable medium was felt and met it is almost impossible to say. Aristotle declared, and the writers who have followed in his footsteps have tacitly accepted his assertion as being tantamount to proof, that :—

“ The other and more complex form of exchange grew out of the simpler (i.e. barter). When the inhabitants of one country became more dependent on those of another, and they imported what they needed and exported the surplus, money necessarily

ly came into use. . . . Hence men agreed to employ, in their dealings with each other, something which was intrinsically useful and easily applicable to the purposes of life, for example, iron, silver and the like." (Arist. Politics 1, 9, 7. Jowett's edition)

Aristotle is to the western world almost what Manu, for example, is to the Hindu mind. No one seems to have seriously questioned his explanation, though, the passage above quoted leaves the explanation of the origin of money to be purely conjectural, and in places misleading. Aristotle, for example, makes money a consequence of the growth of foreign trade; whereas if the explanation he has given were correct, and money took its origin in the known inconveniences of Barter Economy, the exchanges between individuals in the same community must most certainly have suggested the necessity of a common medium of exchange for internal purposes. The coming into contact and social relationships between individuals forming a given community could not but have an economic aspect, viz., exchange of surplus commodities for the required necessities by each unit to another. The act of exchange must indicate the need for money. Hence we may take it that the requirements of internal trade may have had, at least, as much to say in the evolution of Money as the demands of Foreign Trade.

But setting aside this question of the precise moment and occasion which gave rise to what we term Money in the past history of mankind, a question, at most of academic importance and one, moreover, seemingly insoluble by the historical material we can command, we must analyse the inconvenience of the Barter Economy which is supposed to have given rise to the commonly accepted medium of exchange which has since been termed Money. It is quite conceivable that the producer, in any individual case may, by his personal factor or by the nature of

the production he is engaged in, produce more of a given commodity than he wants for himself, and not enough of another commodity needed by him. If he cannot, at the moment he wants it, produce the second commodity himself, and cannot dispose of by his own consumption the first named commodity which he has in excess of his requirements, the only way to meet his need is to effect an exchange with the person who needs a part of the commodity, which the first party has in excess of his own needs, for a part of that other commodity which he has not in sufficiency. Now it may be that A, our first named party, finds that B, our second party, wants precisely the commodity x of which A has a surplus beyond his own requirement, and can exchange it for y , which B has in excess of his requirements. If the excess of each coincides with the need of the other there is no further impediment to their effecting the most advantageous exchange; and even if there is not a precise coincidence, we may allow a latitude for the developed human intelligence hitting upon some means of effecting a bargain. But it is just this point that constitutes the difficulty of the Barter Economy. A may find it extremely difficult to find B, just when he wants it, having a surplus of y which he is prepared to exchange for a portion of x that A wants. To render our illustration more concrete take the following:—

A, a farmer, finds at the end of the season, that he has a superabundance of live stock, say one cow more than he needs. He is, however, short of the plough, some blankets and a coat. Neither the smith nor the blanket-maker nor the tailor may be wanting, just at the moment when A wants to dispose of it, a cow; even if each of these is in his own line able to meet the need of A, not to mention the further difficulty that not one of them by himself could give back to A all the three articles he wants, even supposing that any one of the three wants to have a cow. What A wants, what any one of the other three, and, therefore, the whole host of them making up the given communi-

ty want, is some common article which any of them would be willing to take in exchange for the article that A offers them, in the certain assurance that whenever the holder of the common article wants to dispose of it he can get any other article he wants in exchange for that common article. If A in the above example could part with his cow to a dairyman, or a breeder, or a butcher in exchange for such a commonly accepted and acceptable article, he may be sure of getting his iron and balnkets and coats as and from whomsoever has them. The inconvenience of a want of precise coincidence would thus be obviated. And, if the medium thus selected for effecting exchanges were itself minutely divisible and highly aggregatable, its utility would increase all the more.

It must be noticed that in the exchange effected by the intervention of a common medium of exchange, though the task seems to be ever so much simplified, the transaction in reality becomes much more complicated than before. Under pure Barter exchange is a single act, comprising all the elements in the same identical transaction. A wants to exchange his cow for a plough, and if B has got such a plough, and desires to get a cow in exchange, there is nothing for the parties but to make the articles in question change hands. The exchange is complete. The difficulty occurs if B has not got a plough, though he may be wanting a cow; or having got a plough he may yet not be wanting to exchange it for a cow. A must then find some one else who would take his cow in exchange for another article, which, though not necessarily the plough A wants, is such, however, as would be in much wider and commoner demand than his cow, and, therefore, more easily exchangeable for almost any other article. If A can get such an article, or if the community of which A is a member, hits upon some such article, thanks to the repetition of the experience which we have shown A as undergoing in the above illustration, it would be ever so much easier to make exchanges. But because exchange becomes easier

it must not be overlooked that with the introduction of a common medium of exchange, the transaction is at least duplicated. A exchanges, or, as we may call it, sells his cow to B for g a common medium, not because he really wants g or has any use for it per se, but because of his belief that when he wants it to be exchanged for any other article he may happen to require, it would be certain to be so exchanged without any difficulty. He, therefore, sells his cow to B for g without at the moment knowing precisely what he is going to do with that g , or what particular wants he may have to meet throughly its instrumentality. He may, therefore keep g until a want is felt, and then exchange it for the plough or the coat or the blanket he requires. The single act of barter in the previous example is now doubled, and cow- g and g -any other article wanted by A-Between the two acts may be interposed an indeterminate interval of time.

Dr. Anderson of the Harvard University, attempting, in his monograph on the "Value of Money," to answer the question: "Why money did come to be?" (p. 397 op. cit.) says: "The answer to the first question rests primarily in the fact that there are differences in the saleability of goods" (p. 401 op. cit.) He holds that value and saleability are not the same thing, the former being the product of the social mind, the latter the result of a number of attributes, which, following Menger, Dr. Anderson enumerates as follows:—

1. Widespread and intense desire for the thing, backed by adequate wealth on the part of those desiring it.
2. Scarcity of the commodity in question.
3. Divisibility of the commodity in question.
4. Considerable development of the market.
5. Demand for the commodity being more than local.
6. Cheap and easy transportability.

7. Unrestricted commerce in that article between localities.
8. Demand for the article being constant, not fluctuating.
9. Durability of the article.
10. Uniformity in quality, permitting standardisation, of the article.

The commodity which possesses the greatest saleability as thus created will naturally be used as money. For:—

“ If there be in the market some one commodity which has a conspicuously higher degree of saleability than any other, the more sagacious men in the market will make it a point to get hold of it and accumulate it in excess of their anticipated consumption of it. They will do this because they will see that they can thereby get other things which they do need more easily than in other ways. With the accumulation of a given kind of highly saleable goods, in excess, by a few men in the group, in the expectation that the surplus will subsequently be used to buy other goods, as yet perhaps not specifically determined, we have, not money, but a big step toward money. At first only a few grasp the great idea. They succeed and become wealthy. The others see the advantage of the thing, and imitate them. The prestige of the wealthy and successful men would induce imitation even if the advantage were not clearly seen. Then a tradition and a custom grows up. With the growth of tradition or custom picking out one or a small number of things as particularly desirable objects to accumu-

late because of their saleability, with the practice of accumulating these articles in excess of intended consumption, money becomes an accomplished fact. There is no need for agreement or legislation. Money is not, in its origin, certainly, a matter of law or conscious public planning,"

(p. 405 op. cit.)

This explanation of the origin and development of money is not, it must be conceded, quite in accord with the accepted view of the older authorities on the point, nor does it respect very much our modern conventions which regard that only as money which has been prescribed by the state and regulated accordingly. We have not historical data enough to unhesitatingly adopt or reject the view as being in consonance with or opposed to the known facts of our past. Certain it is, however, that the view acquires an amount of probability from the known disposition of mankind to imitate. But whether money originated because of a fiat of the state or some kind of social convention, its root must be traced in the difficulty inherent in and inseparable from all barter transactions.

The foregoing analysis of the origin of Money serves to describe and explain its functions. The first service that at all demanded the institution of a common article was to serve for a general medium of exchange, to enable people to obtain directly the things they wanted, or to dispose of things of which they had a superabundance for things which could at any time be exchanged for other things they wanted; even though, in themselves, the things so taken in exchange may not satisfy any want. But in making the exchange, it is impossible for rational people not to consider the relative value, not to institute comparisons between the things exchanged. Unless the article selected, at the same time that it serves as a common medium of exchange, also

helps to make a rough comparison in value, it would not be freely used as Money. It would, in fact, be unable to be a common medium unless it is also such as to be a common measure. Prof. Kinley (Money. p. 20) quotes Prof. Bonamy Price as saying:

“The savages who first took to cowry shells would hardly be upto such a thought as comparing goods with one another. The given measure was the consequence, not the motive, of the use of money.”

But he rightly observes on this remark:—

“This hardly seems the reasonable view, for we cannot believe that a comparison of values did not take place even in the earliest use of a medium of exchange. Rational beings, even though savages, would hardly exchange their goods without reference to their value.” (op. cit. p. 20)

3.

It may be impracticable to separate the measure of value from the medium of exchange. In fact the first articles selected as money had a value of their own, being articles of consumption; and must therefore have necessarily served, and been intended to serve, both as media and as measure. The difficulty of pure barter which originated the money was not merely the absence of coincidence in the desire for exchange. There was also the difficulty, even if the coincidence of the mutual desire for exchange took place, of how the articles sought to be exchanged against one another were to be measured. How many coats or blankets was the cow to fetch, or how much of the plough iron, was a difficulty not a whit less urgent than the difficulty of finding a person who had precisely the articles one wanted to be exchanged for one's surplus. Without, therefore, attempting to determine as to which of the two functions of money, medium of exchange and measure of value, was the first in point of time, and, therefore, more important, we may content ourselves by regarding these two as the primary functions of money.

Just as money, acting as the medium of exchange, simplifies transaction, so we may say money, acting as the measure of value simplifies thought and the ascertainment of results. The need for a measure is intellectual rather than physical, while that for a common medium is more material. Any object of value may be used to measure the value of any other object, just as we may use any piece of weight to measure the weight of any other piece. But such a simple comparison can tell us only that A is heavier or lighter than B, or more or less valuable, as the case may be in our particular comparison. It will not tell us how much exactly is the weight or value of A by itself, or how much is the sum total of the weight or value of all these articles. Take the instance of a shopkeeper dealing in buttons, dhories, nails, butter, eggs, flour, wire, sugar, corn and matches. Assume that there is no common measure, but that the customers of the shopkeeper also make and deal in the same things, using the shop as a sort of clearing house. The shopkeeper must, in the absence of a common measure, know the value of every one of these articles in terms of every other. If there are a dozen commodities he will have to remember 66 different comparisons; but if they choose only one of these commodities to form a common measure, he would only need to remember 11 ratios, i.e. the prices of each of the remaining 11 articles in terms of the twelfth selected as the common measure.

There is, however, no single commodity which can serve as an absolute measure of value, as there may be an absolute measure of length or weight, for instance. The latter type of measure, like a meter, is an unvarying unit; but the measure of value commonly selected in all civilised communities, of which we have any historical knowledge, has never been a fixed, absolute, unvarying measure of the relations of that commodity with other commodities which are constantly changing their relations inter se, as also with the commodity selected to function as a common

measure of value. It may, indeed, be that a given commodity may have qualities which enable it to minimise these alterations, and resist those influences which affect its own value in terms of other articles. The more complex a community becomes and the more fully the nature and functions of money are understood, regulations may be devised to obviate the effects of the variations taking place in the value of any group of commodities from affecting the value of the money material. But, in spite of all the qualities that the selected money-material is assumed to possess or endowed with, in spite of all human ingenuity notwithstanding it is impossible to find any single article which would alter exactly and in a compensating manner or direction, with innumerable other articles.

While, therefore, it is possible to hit upon a commodity which can satisfactorily discharge the function of a common medium of exchange, being generally acceptable, it is impossible to find an equally suitable measure of value. This constitutes a radical difference between the two primary functions of money serving as a medium of exchange and a measure of value. A common denominator of values is used to *measure* value; the medium is used to transfer values. The two processes are entirely distinct even when performed by the same article. And this is another peculiarity of the commodity serving as money. While the scales which measure the weight of a commodity cannot do the duty of the horse and waggon that transfer the weight of the same commodity, the same piece of gold or silver, for example, may both measure and transfer value.

Derived from these primary functions are some secondary functions which also may be noticed in passing, especially as in modern societies they actually appear to have more importance than the original or primary functions. An act of exchange, performed by the intervention of a common medium of exchange, would involve some lapse of time before the medium

itself is exchanged for another utility or commodity. In every such lapse of time it is important, however, that the article serving as the common medium of exchange, which is received by every one in the firm belief that whenever required that article itself can be exchanged for any other article without let or hindrance, should not fluctuate in its own value. Many an article can be suitable media of exchange if the exchange consists of a single act, or if the whole of the exchange is completed without any lapse of time. But in exchanges involving any considerable lapse of time, within which serious economic changes may have taken place affecting the values of the articles exchanged inter se, the question of the choice of the medium of exchange becomes further complicated by the necessity to guarantee that the article adopted as the common medium will itself not lose or increase its value in reference to other things. The medium will be a good medium and a measure for any length of time, only if it can serve as a Standard of Deferred Payments as well. As already observed, in practice it has been found impossible to discover any single commodity which will retain its own value, in reference to innumerable other things, each of which is liable to be affected by its own peculiar factors, unimpaired, and always changing simultaneously and sympathetically in reference to all other articles. But, without much regard to the absolute requirements of strict economic theory, the world has in practice used the same articles indifferently as Medium and Measure of Value, as well as a Standard of Deferred Payments; not because the articles selected have afforded a working guarantee of its unchangeability, but trusting rather in its own regulations suggested by human experience and devised by human ingenuity to obviate or minimise the effects of such variations as do take place in fact. A perfect Standard of deferred payments must aim at placing the debtors and creditors always in the same relative position at the end of the consists of a single act, or if the whole of the exchange

contract, as they were at its beginning. Though admittedly impossible to satisfy these rigorous demands of distributive justice, the practical necessity for some such standard has forced the business world to adopt a commodity for a standard, which, while admittedly incapable of meeting the absolute test, provides more nearly than anything else all the essentials of a desirable standard.

Closely connected with this function of the Standard of Deferred Payments, is another function of a Store of Value. Because in an act of exchange, performed by the intervention of a common medium of exchange, an interval of time elapses between the sale of any commodity for the common medium and the disposal of that medium for another commodity or utility required; and because this interval of time may be indefinitely prolonged at the discretion of the holder of the common medium, the medium acts during the interval also as Store of Value. Money is a form of wealth so easily transmutable that people often take it in exchange for articles, which they would themselves want at a later stage, because of the belief that money is safer than those articles themselves. And this applies even to those articles, which by nature, are not perishable. Even among highly civilised communities, like the British at the outbreak of the last great European War, there is a marked tendency for the people to hasten to convert their other forms of wealth or claims to wealth into Money, under the belief that the latter would be more easy to hold or conceal, should the exigencies of circumstances compel the organised might of the community to make unreasonable demands upon the resources of individuals. Apart, however, from such extraordinary cases, and speaking only of the more commonplace and everyday concerns, we may say, that in every case where a seller of goods parts with them for money, with the intention only to get his wealth in a form which will keep, the operation may fitly be described as storing up value. It must

be remembered, however, that the storing function discharged by the money material is not independent of its more primary function of serving as a Medium of exchange, but is only an artificial emphasis on a given stage in the completion of a transaction in exchange.

To these four main functions of Money, refinement of analysis has added several more. Thus Dr. Anderson (op. cit. p. 418) adds three other functions to the four already-enumerated, and calls them, "Bearer of Options," "Legal Tender for Debts," and "Reserve for Credit Instruments." With all respect to the learning and acuteness of Dr. Anderson's analysis, we are unable to consider these in the light of functions of Money. They are the result of stressing, somewhat unduly, one or the other attribute of a money material. Thus Dr. Anderson observes:—

"The Bearer of Options function is often identified with the Store of Value function. The two are properly distinguished. If a man has in mind a definite contingency, at a definite future time, for which he wishes to hold a store of value, he may well find that a high yield bond, or a loan upon real estate, or any other productive investments, will serve him better than money or bonds with a wide market. So far as money is concerned, the "Bearer of Options" function is much more important than the "Store of Value" function to-day. The reserve of value in liquid form for undated emergencies would, from the point of view of this distinction, come under the Bearer of Options function, rather than the Store of Value function" (op. cit. p. 425).

The distinction between providing for dated and undated emergencies is, to say the least, ultra refined. And the de-

monstration that for a definite emergency at a definite date a loan on real estate may be more productive assumes a sagacity in the human mind at a time of panic or in a state of unenlightened and unreasoning acceptance of tradition, which has no support in the actual facts of the case. Similarly, too, his institution into a separate independent function of a "Reserve for Credit", or "Legal Tender" for the discharge of debts. These are *attributes* with which a commodity, once selected for use as money, is afterwards invested by the growing consciousness of a community, for the sake of greater convenience, an easier facilitation of exchange. The need for a reserve for credit instruments arises at all, because Money conception has been refined and complicated so as to include immaterial things, *viz.* claim to wealth, also, into Money. But this refinement and complication has nothing to do with the fundamental functions of money. Those functions, a Medium of Exchange and a Measure of Values, are the dictating necessities which give rise to the very idea of Money. The two other functions, derived from the main functions, are resolvable into the same principal functions. Our classing them apart is not with a view to indicate any generic difference between the Medium of Exchange and Measure of Value functions on the one hand, and the Store of Value and Standard of Deferred Payments functions on the other hand. The derived functions are mentioned apart to emphasise their greater practical importance to-day, as things stand in actual life. Dr. Anderson's refinements must, therefore, be dismissed with only this observation: that while they indicate some important attributes of money which are imposed upon the original materials for the greater convenience of society, and have occasionally assumed in practice grave importance, they cannot be regarded as the principal, much less as the primary, functions of Money.

There is another of Dr. Anderson's contribution to the

analysis of our conception of money which cannot be so lightly dismissed.

“ In general, the standard of deferred payments and the measure of value functions do not, per se, add to the value of money. The legal tender function may or may not do so. The medium of exchange function, the store of value function, the reserve for credit function, and the Bearer of Options function, normally do occasion an added value, which is to be attributed to money, either as a capital increment, or as a rental. ” (op. cit. p. 436.)

The value of money is generally assumed by writers on the subject to be determined by the usual factors of supply and demand, as manifested by the cost of production of the money material combined with the possibility of devising substitutes, as well as with the rapidity of circulation; and the introduction of credit instruments, which can be described as Money only by a very serious extension of the meaning of the term. Dr. Anderson has set himself, in the work under reference, to study carefully the explanations, hitherto offered for the cause conferring its value on Money; and has elaborated an explanation of his own which may briefly, though scarcely adequately, be summed up thus: the value of all articles, including that of the money material, is determined by the *social mind*, acting upon supply and demand.

“ The value - quality,” he says, “is psychological in character. It rests in human minds. But *Not* in the minds of individuals thought of separately. It is a complex of many individual mental activities, highly institutionalised; and including legal and moral values, hopes and beliefs and expectations, as well as the immediate intensities of men’s wants for consumption goods.” (op. cit. p. 41)

Under his conception of value, it would not be surprising to

find the factors above mentioned as themselves affecting the value of money, or even conferring or adding to that value. Thus he explains the causal force in the Medium of Exchange function of money by postulating that exchange grows as a natural product from the institutions of private property and private enterprise supported by the division of labour. He then argues, or assumes, that:—

“Values may be created by changing the forms, the time, the place, or the ownership of goods.”

On this assumption it follows that those who have money are in a position to levy a toll on those who wish to dispose of the surplus goods they have produced. This toll represents the added value of the money material. The form in which the toll may be disguised may be a sort of rental paid for the use of the money article, *e.g.* interest on short term loans, or may in some cases even assume the aspect of capital increment or appreciation.

This explanation of the learned doctor is impossible to combat effectively without a satisfactory rival theory of the value of money. If we accept the first proposition in this chain of reasoning, *viz.* that value is a human conception, not an inherent attribute of the articles said to have value, there is nothing for it but to accept the conclusion that certain functions of money do add to its value also. In a society where exchange is non-existent, or where production is for use only and not for exchange, the necessity for elaborating the idea of value would be proportionately diminished; and the conception of value will rather have to be on the lines of inherent qualities of the articles which are supposed or admitted to have any value. In a society, however, like our modern society, predominated by the idea of exchange, the analysis of value cannot but lead realistic minds like Dr. Anderson's to stress the aspect of exchange value only. By way of criticism of Dr. Anderson's remarks quoted above, we shall only add that the functions of money, which he believes add to

the value of money, do so only in a conception of the term value, which is indissolubly connected with the idea of exchange, with the demands of an exclusively commercial community. But that it is not impossible to conceive of value independent of exchange, and that in such a case we must consider Value to be determined by the intrinsic qualities of a given article. Those intrinsic qualities must, of course, have definite correlation to specific human wants. But on this idea of value independent of exchange, there can be no question that a particular use of a given article adds to its value. The article is used, or would be used at all because it has value, i.e. it has some definite correlation to a specific human want. No function of money can, under such a theory, be said to add to its value, much less to cause or create the value. But assuming that the commodity selected as Money has some inherent qualities which confer its own value, the question next arises as to how this value is to be measured. The money article serves, as we have seen, as a common denominator of values. To denominate its value we must, therefore, look to the aggregate of all other values, or, as the economic phrase generally adopted for this purpose expresses it, we must look to the general price level for measuring the changes if any in the value of money itself. The measurement of this change is important, not merely from the academic standpoint, but also from the practical significance of ascertaining what a given quantity of the money material can buy in different places, particularly to a capitalist who has his investments in a number of places. But, more important still, we must try and establish substantial justice between debtors and creditors in all contracts which by their very nature will take time to be consummated. If the money article is susceptible of any serious variation in its value, and if we can devise, not a corrective to prevent the variation or rectify when a variation has actually occurred, but rather a means of determining the exact extent of the varia-

tion; then, in order to prevent the debtor or the creditor in a long term contract benefiting at the expense of the other, all we would have to do will be to ascertain the extent of the variation, and order the amount to be reimbursed by way of compensation. The problem that we have to solve is in the words of Dr. Kinley (Money p. 226)—

“What we are called on to do is to determine, in the first place, the relation of a certain property of one variable, A, which is subject to numerous, undetermined causes of variation, to a similar property possessed by a multitude of variables, of which A itself is one similarly subject to numerous causes of variation, which are not fully known; in the second place, to do this for various times, as to compare these ratios, although in the meantime new causes of variation may have come and old ones may have dropped out and the relative importance of the various causes may have greatly changed”.

The solution of this problem is to be found in what are known as the Index Numbers. An index number may be defined as:—

“An index number or relative price of any given article at any given date is the percentage which the price of that article at that date is of the price of the same article at a date or period which has been selected as a base or standard.” (Moulton: Principles of Money and Banking p. 260-1, following the definition in the Bulletin of the U.S.A. Bureau of Labour Statistics VII, 1902, pp. 195-214).

If the price of wheat is 5 seers per rupee to-day, and $7\frac{1}{2}$ seers six months afterwards, the price of 5 seers will be 0-10-8, or per cent. But it may be that the price of the single article selected is misleading. Hence a num-

her of representative articles of common consumption are collected, their prices carefully compiled, and then averaged for a given period, which is to serve as the base. The base price of each article is indicated by 100, and all other prices of the same article are expressed as percentages of the base price. The following simple illustration may be quoted from Dr. Kinley (op. cit. p. 229) to explain fully the fundamental idea of the Index Numbers.

		1880	1890	1900
Steel, per ton	...	25.00—100	23.00—92	26.00—104
Corn „ Bushel	...	50—100	45—90	55—110
Wheat „ „	...	90—100	92—102	95—105
Wool „ pound	...	30—100	25—83½	28—90
Coal „ ton	...	2.00—100	1.80—90	2.10—105
Sugar „ bbl.	...	15.00—100	14.50—96½	14.00—93

In the first period, 1880, the total of all six prices is 600, which, divided by 6, the number of articles noted, gives the average and the base price as 100. In the next period the total of prices is 554, which, divided by 6, gives 92½ or the prices fallen as compared to 1880, in 1890 by 7½ per cent. In 1900 the total is 607, which, divided by 6 gives by 6 given the average of 101 1/6, or the prices have risen the average of 101½ or the prices have risen by 1½ as compared to 1880 twenty years later.

The utility of the index number is very considerably undermined by the impossibility of recording the prices of all the articles that form the subject matter of exchanges, as well as by the practical difficulty of giving to each article its proper importance in the construction of the index number, not to mention the by no means insignificant point about the actual compilation of the price list. Though statisticians are devoting more and more energy to the perfection of this instrument, however rude, for establishing substantial justice as between the debtor and creditor interests in our

community it has as yet hardly reached the stage of practical politics.

A discussion about the functions of money is bound to suggest the qualities required in the money-material. From the chain of arguments given above it would seem that the first requisite in a good money-material is value independent of its use as money. The Value of many of our most important forms of modern money is no doubt, largely, if not exclusively, determined by custom or legislation; but custom cannot operate and laws cannot be made to establish a commodity as money without some substratum of intrinsic value. No material will be found universally acceptable unless it has some value of its own, apart from the value given to it by its constant use as a common medium of exchange. Moreover, even if almost anything would do for passage between buyers and sellers to effect an exchange, not everything will do to act as a standard or a store or a measure of value. To fulfil these functions adequately the money-material must be conveniently portable, durable, devisable into pieces of various sizes and easily recognisable by its appearance. It is true that in a complex society, where the people have passed the stage when a concrete material is needed to serve as money, and where a more perfected mechanism of exchange has restored barter for all practical purposes all these requisites may be of secondary importance; but until that stage is reached the money-material must be a concrete commodity of some intrinsic value of its own, easy to carry about, convenient to store up, indestructible, unmistakable, possible to break up into subdivisions and each division capable of retaining the identical appearance and the same value in proportion.

We need not attempt a lengthy explanation for each of these qualities. We have already given some reasons to show the necessity of some independent value in the money

material, besides the conventional value which its use as money gives it. For a short period, and under exceptional emergency an apparently valueless article, like our modern paper money, may continue to circulate and discharge all the functions of money; but whatever the force of convention and legal enactment may be, such an article cannot be forced upon the people and circulate as money for an indefinitely long time. As regards portability it is obvious that the value of money may be influenced by its relative scarcity or superabundance in one place as compared to another. To remedy such a state of things it is necessary to counteract the superabundance in one place by means of the scarcity in another, and to carry that out it would be indispensable that the money-material be capable of easy transportation with the least inconvenience and cost. And this is altogether independent of its value as a store of value. As regards indestructibility, if the money-material is to be constantly used in commerce, and if its value is to endure unimpaired, it is self-evident that the material chosen should be able to resist the wear and tear of daily handling. Articles of high intrinsic value, like those of food, are yet unsuitable for the purposes of money, for the simple reason that they cannot last beyond a very short period of time. It is impossible to keep a large stock of such articles and it would be extremely inconvenient to carry them from place to place. The quality of homogeneity is needed because the money-material requiring to be broken up in different parts, all the sections must be of the same kind. For if not, if one piece is valued more than another, the utility of money as a medium of exchange would disappear. Divisibility also is necessary because money has to serve as a measure of value. The stability of value of the money-material is essential because if the buyers and sellers are to receive their just value for the articles they exchange the article serving as money must retain their value unimpaired at all moments of time. This question of stability has attracted the attention of writers

from very early times, and we cannot yet say that we have discovered a medium of exchange absolutely proof against variations in value. Still, for a good money-material this is perhaps as important a quality as any other.

All these qualities are found, in a greater or smaller degree in what have been called the precious metals—gold and silver. They have an intrinsic worth from their lustre and brilliance; and their great scarcity coupled with the cost of producing them, gives them a high value on account of which they are used as ornaments, even independent of the ages old convention which has made them the material for money in all civilised countries. They are not liable to rust or decay or destruction through the ordinary wear and tear. Pieces of gold and silver are all alike, and the inscriptions and designs impressed upon such pieces make them easily recognisable. Embodying considerable value in small bulk they are convenient to carry about and thus help to keep their own value at a fairly steady level. Hence the precious metals have been generally adopted as money—material.

FORMS OF MONEY:—

(a) *Metallic money.*

After examining the functions and qualities of the money material, we must next discuss briefly the various forms of money. As the precious metals fulfil almost all the requirements of a good money-material they are and have been the most important form of money. The metallic money of to-day consists chiefly of gold and silver assisted by copper, bronze or nickel for small change. Pieces of these metals, stamped with the device of a Government or any other issuing authority, and certifying thereby the weight and fineness of these pieces, are called coins. The requisites of a good coinage have been thus laid down: accuracy in composition, convenience of shape, size and weight, difficulty of counterfeiting and cognisability. The shape and the size

and the stamp and the design all combine to give the coins these several qualities. The chief evil that the coining authorities have to guard against is that of counterfeiters. The laws of almost all countries have ordained in vain heavy punishments against false coiners. This small class will continue its occupation, in spite of all its risks, so long as that occupation remains at all profitable. Mint officials must, therefore, press into their service all the devices suggested by every advance in metallurgical and chemical sciences. In order to guarantee the weight and the fineness by the impressed stamp it is essential that the right of coinage be vested in some recognised authority. The rampant individualism of the last century could not accept without question the practice of century pasts, and the question was discussed whether the right of coinage also should not be taken away from the State. Every one, however, who has studied at all the principles of monetary science; every one who appreciates the immense importance of this right in modern commercial communities; every one who understands how much depends upon the correctness of the weight and fineness the coin is certified to possess will readily admit that the right of coinage must be vested—preferably as a monopoly—in the State. Times were, indeed, when the head of the State could wilfully debase the current coin of the realm in the hope of some small temporary advantage to himself. But the growing sense of responsibility to the public, and the increasing divergence between the function of the State and the will of the sovereign may well assure us that a deliberate debasement of the coinage for some temporary personal advantage is now impossible. Another objection against leaving the right of coinage in the hands of the State is the possibility of immense profit arising therefrom. We may prevent such heavy profit by making the legal value of a coin conform as nearly as can be to its market value as a piece of bullion; or by setting the profit apart as a reserve to be used for specified currency purposes. Even if we do not do

so it would be better that these profits should go into the public treasury than in the pockets of private person. Moreover it is much more economical to coin at one place than at four or five with all the corresponding multiplication of machinery &c. And finally if there is any loss through the ordinary wear and tear it would be much more just for the state to bear it than private persons. In any case the right of coining money must be a public monopoly with open mint for the coinage of standard coins. It must be a monopoly because it would be impossible to guarantee the same weight and fineness in all the coins of all the private moneyers; and the chances of debasement multiplied as often as there are moneyers.

We may mention here that though so far coins have been spoken of as if their only use was for momentary purposes, it must not be forgotten that they often serve as medals, as historical mementoes struck to commemorate a particular event. This use of a coin is becoming rarer; but the fact that the history of many of the most ancient peoples of this world has been pieced out from the slender records left by such coins proves conclusively that in the past at least this use of coins was not negligible.

PRINCIPLES OF COIN CIRCULATION.

The limited scope of this book would not permit us to try to unravel the mysteries of coin circulation. We must contend ourselves by mentioning only a few important laws in passing. The most important of these is the so-called Gresham's law, which may be summarised, as follows: When superior money is in circulation side by side with the inferior money the latter will gradually drive the former out of circulation. It is true a slight superiority is not easily noticed by the public; but the class of money changers, bullion dealers, bankers, goldsmiths would notice the slightest difference and sort out all the best coin they get to be stored up at home or for

purposes of export abroad. Their action is impossible to be counteracted by the public since, while in other things each individual can choose the best for himself, in the case of coins he is unable to do so. Receiving them for his goods or services only to exchange them for other commodities, he is content to take any coins which are certain to pass from hand to hand. The conditions for the operation of Gresham's law must of course be fulfilled before the superior money is driven out by the inferior; one of these conditions is that both kinds of money must have full legal tender quality and the other is that the total currency must be in excess of the country's need. When these conditions are fulfilled the rest is only a question of time.

Another analogous principle of currency deals with the composition of the coinage system. Since in all countries at one time or another both gold and silver have been full legal tender currency, the question has been asked whether there is any advantage in maintaining one simple metal as the standard metal. The "Battle of the Standards" has been a long and furious one; and though monometallists seem to take it for granted that we have seen the last of it, a careful examination of the subject makes it by no means clear that we are even now completely through with the fight. To us in India the question of bimetallism *vs.* monometallism is of peculiar importance; and though discussed in other chapters we must here mention the fundamental ideas of bimetallism. The double standard has the support of historical tradition in this and other countries; but to maintain that system well in modern communities it is essential that a ratio be fixed between gold and silver at which the two metals should exchange freely. We cannot of course fix any ratio that catches our fancy and this is one of the greatest obstacles in the way of a practical realisation of workable bimetallism. The ratio between gold and silver has oscillated backwards and forwards so violently that the bimetallists of India, the United States and the

Latin Union, with the best will in the world, could not succeed in their endeavours. The ratio to be fixed must correspond to the market ratio and must be accepted by all that adopt a double standard. Unless this is done Gresham's law would operate and bimetallism will be rendered impracticable. The ratio between gold and silver in India some thousand years ago was 1: 8., Under Akbar it was 1: 9.4. and in the last century it rose to as high as 1: 30. The constant change which the last century witnessed in the relative value of the two metals rendered an agreement on a definite ratio impossible and so the double standard was doomed. After fixing a ratio, the countries accepting a double standard must keep an open mint for the coinage of both metals, and must make the coins of either full legal tender at the ratio agreed upon. Unless the coins of both metals are legal tender at the agreed ratio to an unlimited extent the double standard will not exist in practice.

These essential conditions fulfilled, the double standard may be worked; but even then the adoption of a double standard by any one country in the face of the single standard of all its neighbours would tend perpetually to unbalance the double standard. To be successful the double standard must prevail over a large area, and, at a pinch, the disturbed ratio in one country must be capable of correction by the import or export of the metal in question from or to the other countries.

The greatest advantage claimed for their system by the advocates of bimetallism is that a double standard prevents with ease violent fluctuations in prices. If the market value of one of the standard metals is in excess of its mint value in terms of the other standard metal, then this under-valued metal will, by the action of Gresham's law, be gradually driven out of circulation. But its displacement from currency would lead to its superabundance in the market for other purposes, and this increased supply in the market helps once more to restore the ba-

lance. This is known as the "Compensatory Action" of bimetallism, and it operates more readily in league of bimetallist nations than in the case of a single community; for while in the former case there is nothing to be gained by seeking to export the undervalued metal from one country to another, in the latter case the requisite excess in supply may not be brought about owing to the action of exporters. And the value of the medium of exchange being thus fixed with reference to two commodities instead of one, its stability will be relatively greater. For the causes which may affect the production or use of one of them may not affect at the same time those of the other; and, then, even if the supply and demand of one of them being affected its relative value is altered for the time, it would only be a temporary alteration, sure to be automatically rectified by the *compensatory action* of the double standard, while the general price level remains all the time entirely unaffected.

The advantage of a stability in prices is no doubt considerable enough to incline us, a priori, in favour of bimetallism, apart altogether from special conditions of India. But the monometallists too, must be given some credit for the special advantages of their system before we can form a balanced judgment. They point out that a single gold standard is more useful for the larger international payments which every country has to make nowadays. For gold is more easy and convenient for export than silver and consequently lends itself more readily to a readjustment in the general price level. Moreover the bimetallist system would cause frequent, though minor, fluctuations each time that one or the other metal gets over-valued or under-valued; and we cannot accept that frequent minor fluctuations are a lesser evil than the rare though considerable fluctuations of a single standard. And even as regards the compensatory action of the double standard it may be said that while it looks quite convincing on paper, in practice we cannot depend

on the action unless we can go on indefinitely substituting one metal for the other according to the changes in the market and the mint ratios. In fact it is quite conceivable that the undervalued metal, instead of being driven out of circulation may remain in circulation but at a premium. The price level under these circumstances cannot but be seriously affected; and the chief advantage of bimetallism cannot be realised. At the present moment almost all the leading countries have adopted gold standard in one form or another. Countries with an originally silver standard are no doubt even now interested in the restoring the double standard with a ratio fixed by an international agreement. But the weight and experience of the gold using countries is decisively against such a step and so we may take it that for the time being at least silver is completely ousted as a standard metal for currency.

(b) *Paper Money.*

Another form of money consists of all sorts and varieties of paper money, whether they are convertible or inconvertible promissory notes, issued by banks or by the Government, or those numerous credit documents which, being negotiable from hand to hand, have practically all the qualities of money in the business world. There are various reasons why in civilised and progressive countries money of this kind should be substituted for metallic money. Paper money for instance is cheaper to produce than metallic money of any kind. Apart from their rarity gold and silver are very difficult to produce and so their price must no doubt be affected by the cost of production. Paper money on the other hand is cheap in the extreme and we may take it that its cost of production is almost insignificant. The value that this form of money acquires is exclusively due to legal enactment or commercial convention. It has no intrinsic value. From one point of view, therefore, it is about the best money that could be obtained for the use of modern business

world with all its intricacy. Besides a heavy cost of production metallic currency is very difficult to handle. There is always the risk of mistake in counting; there is always the chance of counterfeiting and consequent loss to honest traders by the receipt of base or false money; and, above all, when money is to be carried from place to place the weight of metallic currency even in the most precious metal-gold is a positive bar when it comes to the question of transport of large sums. In all these respects paper money is certainly superior to metallic money, provided there is full confidence in the solvency of the authority issuing such money, and provided ample precautions have been taken to guard against forgeries. If to all these qualities paper-money adds, as it no doubt does in the hands of bankers, the additional advantage of saving interest then the case for paper-money becomes very strong indeed.

KINDS OF PAPER MONEY.

As already mentioned above paper money is of various kinds. It may be (a) representative money as exemplified by the certificates of deposits. With the exception of the United States these are insignificant at the present time in the modern highly developed nations of prime importance, though possibly they are the oldest form. (b) Promissory notes issued by banks or by the government and payable in legal tender by the issuing body on demand. Such paper is called convertible to distinguish it from inconvertible paper, which, though in the form of a promissory note, by set design or by the force of circumstances, cannot be paid in legal tender money. The question as to who should issue papermoney has been widely debated in the past and not yet definitely solved. Originally paper money used to be a form of Bank money and was issued almost exclusively by banks. They would meet the needs of their customers by advancing them loans or by discounting their bills in their own paper. Since the banks can issue it only as their customers de-

manded, it followed that there could not be an excessive issue of such paper in a country where the banking enterprise was properly conducted. Moreover it would be an ideal form of currency since as the need of the trade demanded, it would expand and when that need had disappeared it would automatically contract, the traders no longer requiring such assistance, would return the bank paper to the bank vaults, to be either credited to their account or in discharge of their debts. The banks would forthwith cancel the returned paper and the currency would return to its original dimensions. This is a conclusion which one might arrive at on a priori considerations but which, however, would not necessarily be realised under all circumstances. The opponents of this principle urge: It is quite conceivable—it often happens—that the bankers, being only men, even when they had the most exalted notions of their duties, could not always guard themselves against the temptation to overissue with the object to increase their profit, this form of money, and to play with their credit beyond a degree justified by past experience in time of emergency.

Nor could we always rely upon the business world returning the bank paper to the banks so soon as the need for that paper was over. Hence would result a state of things in which banks would have issued paper beyond the need of business world, and the business community, finding it a very handy convenient form of money, would keep it, instead of returning it to the banks, even when their needs for more money are over. The result is that there is a larger amount of currency in circulation than is wanted to effect the ordinary exchange transactions; and hence there is a great danger of the price level being affected as we shall see later on.

The problem caused by these two alternative principles known as the "Banking" and Currency" principles respectively has been solved differently by different countries.

England, for example, and Germany to some extent and the United States, accepting the currency principle, have regulated their note-issue in such a way that a definite minimum, known by past experience to be absolutely necessary for the needs of the country, is issued against certain kinds of securities, unsupported by any form of metallic reserve. Every note issued over and above that minimum is secured by a corresponding equivalent reserve of specie. The Bank of France on the other hand is the most notable example of the successful working of the Banking principle.

MODES OF GUARANTEEING THE CONVERTIBILITY OF NOTES.

There are various methods of guaranteeing the convertibility of notes. Chief among these are:— (1) Limitation of the maximum amount of notes to be issued (2) Fixing the reserve either absolutely or in proportion to the amount of notes issued. (3) Providing special security apart from the reserve and (4) supporting the notes by general credit. Each of these has its own advantages and disadvantages. For instance, the plan of securing the convertibility of notes, by limiting the maximum amount of notes, is based on the theory that a certain amount of money being always needed by the business community, it is immaterial whether that amount is in specie or any representative money; and therefore, since the issue of notes results in the saving of interest, we might all issue notes to that extent and economise gold thereby. In all probability, these notes will never be presented for payment; we need, therefore, it is assumed, provide neither specie for their conversion, nor any other safe-guards. There are some serious objections to these methods. In the first place the currency established in this way would not at all be elastic; and if we assume the function of currency to be the ministration to the needs of trade, such a currency can never properly minister to the needs of the business world. Again the maximum of note issue is fixed on the as-

sumption that a minimum of money is always required by the business world. But it is just possible that this minimum may be computed so that it is really more than is needed by the community. Some notes constantly may at the same time have to be converted. As such a measure would not provide any funds, or any adequate funds for the conversion of such notes this in itself would be a serious objection to such a method of safeguarding the convertibility of notes. The second method of providing a certain reserve, whether a fixed minimum reserve or a proportional reserve, has this drawback, that the banks would be required, paradoxically as it may seem, to redeem their obligations on their notes until the reserve falls to a certain point and prohibiting them from doing so beyond that point. It may of course be said that the bank is bound to keep a sufficiently high reserve against all emergencies; but in practice if the banker wants to make his business a success, he finds it difficult to maintain always a high reserve. The proportional reserve method is apt to degenerate into a fixed minimum reserve, because a demand for the payment of a considerable amount of notes may so deplete the reserve as to bring it to the point of the proportion required by law, and as beyond that proportion the bankers are forbidden to utilise their reserve for the meeting of their note obligations, this method is exposed to the same objection as the fixed minimum reserve method. Other methods such as requiring a certain amount of deposits, or making the notes a general charge on the assets or making them the first charge upon the *shareholders*, have all their several points of advantages as well as disadvantages, but we cannot examine them in detail in the limited scope of this book. A combination of all these methods is frequently unavoidable and almost invariably beneficial. It is obvious that no plan can be devised which will make the notes absolutely immune from any danger, since, except by providing a cent per cent specie reserve, by their very nature the notes being based on credit, will always

leave some loop-hole for danger. Every scheme of regulating paper-money has two purposes in view each of which is incompatible with the other. A note issue, however secured, has to provide society with a form of currency equal to all its ordinary needs. The issuing authority on the other hand of every note issue must see to it that they provide against the danger of inflation and depreciation of currency. To try to reap the full benefits of one would be to run the most serious risks of the other. Under the circumstances a combination of the various methods would lead to the greatest advantage which we can expect from the use of the paper money and expose us to the least risk. Hence we should always require a certain amount of specie reserve, so arranged, however, that the note issue is left to expand or contract according to the needs of the business world.

V. QUANTITY THEORY OF MONEY.

During the discussions about the form of money we have often had to speak of the changes in the value of money. These changes are measured in terms of other commodities. But we have not so far explained how such changes are at all likely to occur. If we assume that the value of money results only from its use as a medium of exchange, and has no value apart from that function, it would be obvious that the value of money would rise or fall according as the quantity of money to be exchanged for commodities is less or more. To such a statement of this theory there are obvious objections. In the first place money, especially metallic money, has its value apart from its use as a medium of exchange. Gold and silver are required for ornamentation and other purposes; and even when they may be discarded altogether for monetary or currency purposes, they may still find some use in works of art. We cannot then say that the value of money varies inversely with its quantity. Besides not only that the value of money, of metallic money in

particular, is due to others in addition to its currency purposes but the same amount of money may by rapidity of circulation, be made to discharge far more numerous obligations. The quantity of money increases according to the rapidity with which it circulates. Perhaps the most serious objection to the theory that the value of money varies inversely with its quantity is furnished by this attribute of money which makes one and the same piece serve to discharge, five, ten, twenty or one hundred obligations. Thirdly the use of paper money and especially credit in all its forms makes us lose sight altogether of the effect of the variation in the value of money in the prices of commodities. Since credit par excellence provides a form of currency which contracts or expands precisely according to the needs of the business community, we cannot say how far the volume of money governs the level of prices wherever credit has been sufficiently developed to become a serious rival if not oust altogether the use of money. Credit must no doubt have a substratum in metallic money; but even so the transactions effected by means of credit are so enormous and the transactions effected by the use of money are comparatively so few that the quantity theory of money pure and simple cannot be depended upon. The conditions under which the quantity theory of money will hold true have thus been summarised by a leading American writer.

(1). A monopoly of the coinage or of the issue of paper-money by the central authority; (2). Money must serve only as a medium of exchange and have no other function or use besides those of such a medium. All the money then will be used to effect exchanges and then an expansion or contraction of its volume would have a serious effect on the price level. (3) Credit is supposed to be unknown.

As we have already seen these conditions are not fulfilled in modern commercial nations; and the quantity theory holds true if at all in a very obscure and in a very insignificant way. Still

the theory embodies a very important principle of monetary science, namely that if there has been devised a form of currency which serves only and exclusively as a medium of exchange and where credit is unknown then the level of prices would vary inversely with the volume of money in circulation. This is realised nowadays only in countries where there is an inconvertible paper currency which will satisfy nearly all the conditions required above, for it will be in all probability of government monopoly, which will have no other use except serving as a medium of exchange and which would be in use only because credit has been dislocated.

CHAPTER II

History of Currency in India.

The history of coinage in India is as interesting as it is ancient. The earliest known Indian coins go back to a date far anterior to the invasion of Alexander of Macedon. Says the Imperial Gazetteer (Vol., II p. 135). "The introduction into India of the use of coins, that is to say, metallic pieces of definite weight authenticated as currency by marks recognised as a guarantee of value, may be ascribed with much probability to the seventh century B. C., when foreign maritime trade seems to have begun." An the writer of this article, Mr V. A. Smith, goes on to add, "There is reason to believe that the necessities of commerce with foreign merchants were the immediate occasion for the adoption by the Indian people of a metallic currency as well as of alphabetical writing." In spite, however, of the deservedly great reputation of Mr. Smith in all matters pertaining to our ancient history, we are constrained to differ from him in this respect. For he seems to assume that a currency would be needed in a civilized country only for the purpose of international commerce. No sooner do the phenomena of exchange make their appearance in any society some form of currency would be needed to affect those exchanges. We may safely assume, that the traditional self sufficiency of India was at least as great in the centuries before Christ as in the centuries that followed; that, therefore, trade must have held quite a subordinate position in the economic organisation of the ancient Indian society. parti-

cularly if we mean by foreign trade, trade with countries outside the geographical frontiers of India and conducted by the sea routes; even to day, when foreign commerce has assumed such gigantic proportions in the exchanges of civilized nations, the foreign commerce of the United States has been estimated by President Wilson to be only 4 p. c. of the total trade of that country; that the development of exchange amongst the people of India themselves must have been considerable even in the age of the Ramayana and the Mahabharatta; and that consequently the need for some sort of a currency for the purposes of the internal exchange must have been felt long before a similar need for facilitating foreign commerce was realised. It is pretty certain that in the age of Manu, whatever its date may be, the art of coinage was understood in India. *

It would take us far beyond the bounds of this modest work if we were to attempt, however briefly, a history of Indian coinage from the earliest times. Suffice it to say that the early Indo-Aryans had reached a very high degree of excellence in applying the principles of monetary science; that they knew all the mysteries of legal tender and the intricacies of standard and token coinage; that they appreciated the importance of seigniorage and were familiar with the devices of counterfeiters. One Emperor, Skandagupta, had even to resort to the doubtful expedient of a debasement in currency in order to remedy the financial distress of his administration. At the time of the Mohammedan conquest the different kings of India had their own coinage of gold or silver, conforming as far as

* c. p. Manu, VII §134.

possible, to the ancient standard prescribed by Manu, and Chanakya and Varahamihira. They each regarded and justly so-coinage as a royal monopoly and endeavoured successfully to guarantee the weight and fineness of their coins. As regards the mere technique of coinage, the design and shape of their coins were not all that could be desired, though even there, considering the then state of metallurgy, they had attained considerable excellence. Gold and silver being current side by side we may presume they had a sort of practical bimetallism; and though we cannot say what precisely was the ratio of exchange between the two metals, the weight of authority inclines to the view that the pre-Mohammedan ratio was 8 : 1 between silver and gold.

Indian Coinage under the Mohammedans.

When the Mohammedans first entered India they seem to have struck coins of both gold and silver to some extent; but for the general purposes of every day life the first conquerors maintained, almost in tact the local currencies as they found them. The right of coinage together with the mention of the ruler's name in the public prayers, was regarded among the Mohammedans as the indispensable mark of independent, undisputed sovereignty, and consequently Shahab-ud-din Ghori and his immediate successors upto the time of Altamash did, indeed, strike some coins. But the purpose of these coins seems to have been rather the commemoration of a victory or any other public event of the kind, than to serve as currency. The existing coins of the period, with their inscriptions in Nagri characters, and having on their face the name of local rulers along with that of their conqueror, bear out the same supposition.

There was also another reason why the first Mohammedan kings of Delhi could not issue their own coins for any considerable currency purposes. Being slaves by origin, they were

under a peculiar necessity to suppress their ultimate grandeur. To strike their own coins would have been an over tact of treason, which would have been easily brought to the notice of their nominal masters in Ghazni by the itinerant fakirs. After the disappearance of the strong hand of Shahab-ud-din, it is true, he might have struck his own coins to give visible proof of his viceroyalty having been transformed into an independent royalty; but just then the kings of Delhi were suffering from a shortage of bullion. One reason of that shortage may be the removal of vast stores of the precious metal by Mohamud Ghazni and his successors in the path of looting India. Hence even if they had wished it they could not afford to issue any extensive currency of gold or silver from their mints. We may take it, then, that beyond a few pieces of medal, struck rather to gratify royal vanity than to minister to the needs of commerce, the first Musulman kings of Delhi did not venture on any considerable coinage enterprize. An examination of the extant coins of the period shows that the ordinary currency consisted of the coins of the conquered princes, with modifications introduced to show the political transformation which India had undergone. The inscriptions are Hindi at the beginning, to be converted into Arabic after a short interval during which they were bilingual. The figures were, on the obverse, either of the Goddess Laxmi or an Indian horseman, and the names, on the reverse, those of local rulers, either by themselves or in company with that of the reigning emperor at Delhi. The exact weight of these coins we do not know; but the largest gold piece has been found to weigh 93 grains and is circular in shape, while the corresponding silver piece weighs 133 grains.

When the reason of prudence or necessity no longer existed to restrain the successors of Kutb-ud-din from instituting a local coinage of their own, they cast about for means to issue a légitimate currency. We may date the beginning of

the Mohammedan coinage in India from the 33rd day of the first month of 626 A.H. corresponding roughly to 1227 A. D., some 30 years after the establishment of the Muslim Empire in Delhi. In that year Altamash was officially recognised and confirmed as an independent Sultan by the Caliph, the head of the Muslim world. The first coins struck on this occasion bear evidence of the enhanced dignity of the Indian ruler; and all authorities are now agreed that the coins which followed—the so-called *Delhiwals* were all fashioned after the model of the coin struck on that occasion. The money of account with which the later generations of Indians were so familiar—the immemorial “*Tankah*”^{*}—is thought by some to date from that day. Contemporary writers, like Hasan Nizami, the talented author of *Taj-ul-Masir*, refer their money values from this time onward to *Delhiwals*; and though they speak of *Dinars* and *Dirhems* also, these were probably coins, not turned out by the Indian Mints, but rather of the countries from which the writers—or the rulers—hailed. No doubt these coins too were current in India for their mention suggests that they were in general use. In fact we find mention of the *Dinars* and *Nishka* even in the works of the immortal Bana Bhat who flourished under the Emperor Harsha in the 8th century of the Christian era. But such a mention in no way makes the coin an indigenous Indian coin; it only suggests the extent of Arab influence in India four centuries before they finally conquered her. From this date onward, we may take it, the standard Indian coin is the *Delhiwal*.

^{*} Historians are not agreed as to the origin or derivation of the term ‘*tankah*’. Erskine. (History of India Vol. I. p. 456) says it is derived from the Chagatai Turkish word for white viz. “*Tang*.” This, however, seems rather unnecessary display of scholarship or imagination—since the word, as Wilson says, was used for coin in general, and was regarded in the country as equivalent to a given weight of silver i. e. *Masas*. The word is found in almost all the vernaculars of India from very early time.

or the Tankah-of 168 to 180 grains in weight; and taking its name from the city where it was originally minted.

Altamsh, therefore, may be regarded as the author of the standard Indian currency of silver. The standard, its weight and fineness, as fixed by him remained unchanged for a period of 90 years. He coined gold, too, a little later; and these gold coins were based on the model of the *Tankah*, being of the same weight, design, and shape, but not of the same size. The bulk of the currency consisted of *bilon* money, with the subordinate copper pieces which the Mahommedans received from their Hindu predecessors. Altamsh, however, issued a considerable amount of small change from his own mint, so that, as Farishta says, "In order to comprehend the true value of the money of that date it is proper to state that a *Tankah* (the standard coin) was a tolah in weight, whether of gold or silver, and a *Tankah* of silver was equal to 50 "*Jitals*." The "*Jital*" † he adds, "was a small copper coin the weight of which is not now known. Some conceive it was a tolah, while others are of opinion that the *Jital* like the piece of the present day, weighed about 7 $\frac{1}{12}$ of a tola piece." (Trans....by Briggs Vol. 1. p. 360).

This standard, as established by Altamsh, continued unaltered upto the time of Alaud-din Khilji. This unscrupulous ruler, having an unduly large army, essayed to support it by debasing the coinage. He reduced the weight of the standard *Tankah* from 180 grains to 140; and that the reduced weight might not affect prices, he tried to fix the prices of commodities by a royal decree in such a way that the soldier could purchase for the same number of the new coins as much provisions as by the old coins. The *Adali*-as the new *Tankah* of 140 grains; soon came to be known, proved unpopular; and even the absolute autocrat of Delhi had to acknowledge this natural law

* "Billon is an alloy of copper and silver mingled in irregular and widely varying proportions." (Imperial Gazetteer, Vol. II, p. 144).

of monetary science. The debased coins did, indeed, remain in circulation for a time, but at a value conforming to the intrinsic value of silver in the coin; and so we may say that the changes of Ala-ud-in were short-lived.

The next important name in the history of Indian coinage and currency is that of Mahomed Taghlak. That able but eccentric monarch seems to have been an honest and far-sighted reformer of the currency of his day, his only misfortune being that he was five centuries ahead of his times. Though local and contemporary writers do not furnish us with any connected account or reliable scheme of the relative value of local coins, we have ample material to determine, approximately, the changes made by Mahomed bin Taghlak. Two foreign travellers in India, *Ibn Batutah* of Egypt and *Shaiikh Mubarak bin Mahomed Anbasi*, have left us good contemporary accounts, by the aid of which we can piece out the details, and present a connected, consistent story of the currency changes of this 14th century reformer.

Mahomed Taghlak developed the Adali of his Khilji predecessor and at the same time introduced a new gold piece of slightly higher weight than the old gold *Tankah* of 175 grains. This last was a coin of 200 grains and was named *Dinar* on its surface. It seems to have enjoyed a very brief popularity judging from the extant specimens which all belong to the years 725, 726 and 727 A.H. Mahomed also altered the design of the old *Tankah* making it more elegant, and executing it with

† It may be remarked, in passing that the Mint authorities in India maintained the same excellence under the Mohomedans, that they had reached under the Hindus. Though some of Altamash's earlier coins were imperfect from our modern standpoint, the coins of his successors, both of gold and silver, show a high degree of finish and artistic value. Indeed, if we make an allowance for the state of the metallurgical science of the times, they seem to have aimed at absolute perfection.

greater accuracy. The new pieces both of gold and silver caused all the confusion that ensued. Mahomed Taghlak, though a great name in the history of Indian currency, does not seem to have had a clear conception of what we now call standard of currency. In the absence of a definite standard the relative values of gold and silver were necessarily left to be adjusted by the ordinary law of supply and demand, thereby causing considerable confusion not only in the currency itself, but in the level of prices in general. In the days we are now speaking of, the money most ordinarily in use was that of copper, though silver seems to have been the theoretical-the official-standard. Akbar, nearly three centuries after Mahomed Taghlak, when the conceptions of monetary science were more fully realised, accepted the *Dam-a* copper piece of money-as the unit of all monetary computations. Next to copper silver was the most fixed in value; while gold, both from its relative scarcity and from the desire of the people to hoard it or turn it into ornaments was peculiarly liable to wide fluctuations. We cannot, therefore, take the ratio between gold and silver as fixed even for a single reign. The margin is wide enough to permit the several figures given by the local writers to be all correct at one time or another, though the most frequent ratio seems to have varied between 1: 8 and 1: 10. It must be remembered that, though there is evidence to show that in the time of the Taghlak reformer 10 silver pieces exchanged for one of gold, that does not suggest the ratio of 10: 1; for if the 10 pieces totalled 1400 grains of silver, and exchanged for a piece of 200 grains of gold, the ratio would rather be 7: 1. This is quite probable under Mahomed Taghlak, who abandoned the idea of equality of weight between the silver and gold coins-as was the case up to his day, and who had, as already noticed, developed the 140 grains silver piece and 200 grains gold piece.

The reasons why Mohamed issued the new gold coins, in

spite of all their probable confusion which a man like him must have foreseen, are not difficult to conjecture. Large quantities of gold had been poured into the Delhi treasuries by the conquests and plunder of Alaud-din and Kafur in the Deccan. The currency under the Tughlaqs needed an expansion; and Mahomed tried to give this much needed expansion by the issue of new and heavier gold coins. He did not, however, change the standard which remained silver; the addition of gold coins, therefore served only to cause a confusion and to reduce the ratio between silver and gold to 7:1. Confusion, both in the general currency organisation and in the prices, was inevitable, since old pieces were not called in, the new ones were not standardized and no royal firman was issued to regulate prices.

Shir Shah, the last great Pathan King of Delhi, the predecessor and model for many of the great achievements of Akbar, is the next great name in the history of Indian coinage. He introduced a number of specific reforms in the organisation of the mint, too technical to be sketched in this book, but sufficiently important to be copied by his great successor in one form or another as shown by the *Ain-i-Akbari*. He corrected the progressive deterioration of the coinage, brought about by the preceding kings, by discontinuing the time-honoured mixture of metals for the standard coins which were liable to be so easily debased by unscrupulous rulers or careless workmen of the mints and substituted instead simpler metals. He remodelled the coins and reduced and readjusted the relative values of the lower metals of silver and copper. We have not evidence enough to declare that he fixed even the ratio between silver and gold. But the fact that not half-a-century after his death Akbar accepted and established the ratio of 9.4:1 would go far to show that Shir Shah's reforms must have contributed to the improvement in the value of gold in terms of silver.

With a brief sketch of the system established by Akbar,

the greatest of the Mohammedan rulers of India in every department of administration, we may close this section of our subject. Perhaps the easiest way to picture the state of coinage under the great Mughal is to give a simple description of the various coins current. These were:

1. The *Shenshahi Mohur* : of 101 tolahs, 9 mashas, 7 ratis = 100 *Lal Jalali Mohurs* at Rs. 10 each.
2. A smaller variety of the *Shenshahi* weighing 91 tolahs and 8 mashas and equal to 100 round mohurs at Rs. 9. each.
3. *Rahas* = $\frac{1}{2}$ of No. 1 or 2 according to their contents.
4. *Atmah* = $\frac{1}{4}$ of No. 1.
5. *Binsat* = $\frac{1}{5}$ of No. 1 and there were similar coins = $\frac{1}{8}$, $\frac{1}{10}$, $\frac{1}{20}$ and $\frac{1}{25}$ of No. 1.
6. *Chahar Goshah* (4 sides) weighing 3 tolahs & $5\frac{1}{4}$ ratis = Rs. 30.
7. *Chugal* weighing 2 Tola and Mashas = 3 round Mohurs at Rs. 9 each.
8. *Ilahi* weighing 1 tolah, 2 mashas, $4\frac{3}{4}$ ratis = Rs. 12.
9. *Aftabi* weighing 12 mashas, $1\frac{3}{4}$ ratis = Rs. 10.
10. *Lal Jalali** weighing 1 tolah and $1\frac{3}{4}$ ratis = Rs. 10.
= 400 dams.
11. *Adal Gutka* of 11 Mashas, also known as the round Mohur = Rs. 9.

These coins were all of gold. Besides there were silver coins viz:—

1. *Rupee* (round) of 11 Mashas 4 Ratis.
2. *Jalalah* (square) " "

with their subdivisions of $\frac{1}{2}$ or *Darb*, $\frac{1}{4}$ or *Charu*, $\frac{1}{5}$ or *Pandu*, or *Ashta*, $\frac{1}{10}$ or *Dasha*, $\frac{1}{16}$ or *Kala* and $\frac{1}{20}$ or *Suki*. The rupee was valued at 40 dams.

There were also the copper coins of *Dam*, which had come to be regarded as the unit or standard in all exchange, and was the form of ready money of prince and peasant alike, and which was valued at 40 per rupee; the *adhela*, the *pawla* and the *damri* or the $\frac{1}{2}$ Dam, $\frac{1}{4}$ Dam and $\frac{1}{8}$ Dam respectively.

Two points in the tables given above merit more than a passing notice. (1) The large coins, of *Shenshahi* &c. may

* The extra weight beyond that allowed in No. 9 was probably due to the lower degree of the fineness of gold used for these coins.

have been rather medals probably struck to commemorate a special occasion than ordinary coins of every day use. Against this supposition we must remember that there was always a number of such coins in the Imperial Treasury, estimated at 20000 by Hawkins in the days of Jehangir, and that the successors of Akbar went on coining them. Perhaps they were of smaller denomination to facilitate large payments, something designed as a more convenient substitute for metallic money like a modern bank-note which might comprise Rs. 10000 in a piece of paper barely 8 inches long and 5 inches wide and 30 grs in weight. In Akbar's day, with the less developed credit, a *Shahenshahi Mohur* may have been meant for the same purpose. Besides, on each of these coins turned out by the Imperial Mint, the Emperor got a seignorage of $5\frac{1}{2}$ per cent, which may have been a sufficiently tempting reason to put them into circulation.

The other point relates to the increased importance of the copper *Dams*. The values of all others coins are given in terms of the *Dam*, and the estimate of the Imperial revenue and expenditure are also made in the same coins. This suggests that the *Dam* was under Akbar, if not the standard, at least the unit of currency; and it remained so for a long time under his successors.

After fixing the weights and relative values of the different coins, Akbar had next to determine the ratio between silver and gold. Under his predecessors—Hindus and Mahomedans—it had fluctuated between 8:1 and 10:1; and under the Tughlaqs it had probably fallen as low as 7:1. The value of gold, however, was appreciating, and Akbar fixed officially the ratio at 9.4:1.

With the elaborate regulations of coinage that Akbar introduced or amplified, he also found necessary to lay down a detailed scheme of mint royalties or seignorage. The subjoined table gives a clear conception of the well-recognised law of state seignorage—which works out at over $6\frac{1}{2}$ p.c. for turning bullion into coin.

Outlay by merchants in current coin, for crude metals.	Total mint return after refining	Merchant's return, with fractional profits.		State seigniorage.		Mint Charges.	
		M.	Rs.	D.	J.	M.	Rs.	D.	J.
100 Lal Jalali gold mohurs.	a. 105 39 25 0	100	12 37 3½	5	12 3½ 0	7	26 20½
Rs. 950 (crude me- tal test.)	b. 1006 27 20	953-21-10½		50	13 0	2	
Rs. 950 (old coin test.)	c. 1015 20 0	954 29 0		50	24 0	10	12 14½
1044 Dams=cost of 1 man copper.	d. 1170 0	1062 19½			58 20	1	8 18

*In this table M = Mohur, Rs = Rupee, D = Dams, J = Jams.

*In this table M = Mohur, Rs. = Rupees, D = Dams, J = Jitals.
NOTE:—There are obvious discrepancies in the totals of the three last columns as compared with the first. We have, however, simply reproduced the table from Mr. Thomas, chronicles of the Pathan Kings of Delhi who himself has noticed the error, but who makes no effort to correct it.

The system as elaborated and established by Akbar Shah was maintained in all its essentials by his successors. As the outlying parts of the Peninsula were conquered by the Mughals and incorporated into their empire, the whole of the Indian continent came at last to have one uniform currency. Previous to the consolidation of the empire under the Mughals, the whole of India perhaps never had a uniform currency, not even under Chandragupta and Asoka, the Maurya fore-runners of Shirshah and Akbar. For this reason we have omitted all reference to provincial currencies and confined ourselves to the Delhi currency exclusively, not with any view to deny the importance of the local currencies, but rather in the desire to avoid complications and confusion. We might, however, insert at this stage a brief note on the prevalent Deccan currency in the pre-Mughal days, partly because the Deccan has somehow always managed to retain its individuality as distinct from the Northern provinces, and partly because the currency traditions of the Deccan influenced materially the policy of the English successors of the Mughals. According to Sir Walter Elliot the currency of the Deccan consisted of gold under the Hindus. The standard coin was the *Hun-or-hona*, but circulation chiefly consisted of its fractional

* The derivation of the term Rupee is not quite certain, though the attempts at it are not without interest. Some have traced it to "Rupyam" from the Sanskrit *Rupa*—shape of figure, having reference to the effigies on the coin. It is improbable that the iconoclast Mohamedans would have adopted as they did the term if they had known of such a derivation. A more probable or at least a more uniformly acceptable origin is from the Sanskrit *Rupyam*—silver. We do not know when exactly the term *Rupaiya* began to take the place of the older term *tankah*, but it is almost certain that it is not earlier than the days of Sher Shah. The Moghuls accepted this designation of the standard coin, extended its use and hence the present name. Mr. Edward Thomas traces the term in reference to its weight to the Sanscrit *Shala-raktika* of 100 *ratis* or 179 grains.

parts the *Panam* or *Fanam*. The invasion of the northern barbarians began to drain the Deccan of its gold; and, though the *Star Pagodas* remained in circulation as late as the 18th century, the Rupee* came to be the standard coin of the Deccan after the establishment of the Mughal supremacy. The adoption of the rupee as a standard by the Mahrattas completed the chain, and we have ever since had the Rupee as the predominant standard coin throughout India.

With the disintegration of the Mughal Empire, the outward designation of the currency remained unchanged. The different Indian powers set up their own independent mints and struck their own coins. With such a variety in the coining authorities we cannot of course look for uniformity of weight or standard. It would, therefore, be wellnigh impossible to trace the history of the Indian coinage with its vicissitudes from the death of Aurangzeb in 1707 to the establishment once more, on a uniform basis, of the East India Company's Rupee in 1835. The task, even if we were able to accomplish it, would be beyond the scope of the present treatise. Suffice it to say here that before the reforms of 1835 came into effect coins both of gold and silver were generally accepted in India. The East India Company obtained from the Moghul emperors the right of coining in their own mints in 1717 at Bombay, 1742 at Madras, and 1757 at Calcutta. Before these dates the Company did, under the Royal Charters, turn out some coins of their own. But henceforward they coined at their Presidency mints the Mughal coins in all essential particulars.

There were 3 principal kinds of rupees in circulation, the Sikkah rupee of the Moghul emperors in Bengal and the Northern Provinces or Hindustan, the Surat rupee of Bombay, and the Arkot rupees in Madras. From 1773 the Sikkah rupee of Bengal had an inscription, 19 *San Sikkah*, that is to say, coined in the 19th year of Shah Alam. This coin con

sisted of the gross weight of about 180 grains and with about 176 grains of fine silver. With slight changes it remained in circulation upto 1836. Since January 1, 1838, the Sikkali rupee has been legal means of payment. The old Bombay* rupee was somewhat lighter than the Sikkah rupee though it had more fine silver. Under the administration of the Nawab of Surat and of the Bombay Government the Sikkali coin was discontinued. The Surat rupee weighed $178\frac{3}{4}$ grains and contained 1.24 per cent alloy. By an agreement with the Nawab of Surat the rupee both of Bombay and Surat was to circulate throughout the territories of both parties at an equal value and both parties pledged themselves to maintain the coin at this standard. The Nawab's rupees, however, soon came to contain 10 per cent. or even 15 per cent. of alloy. As a result Bombay rupees were carried to Surat to be recoined, and the Bombay Mint ceased to coin silver for more than 20 years, the only coin in circulation being the debased Surat rupee. In 1800 the Government of Bombay ordered the Surat rupee to be struck in the Bombay Mint and from that date the rupee was maintained at an equal value in the Bombay territories. It weighed 179 grains and contained 7.97 per cent. alloy. The Arkot rupee before 1818, struck at the Mint of Fort St. George, contained 166.477 grains of fine silver. As gold was valued too highly in comparison with silver, the silver rupee had but little importance in comparison with the gold *Pagoda*. It was a small Indian coin rated higher than the British rupee.

In 1806 the Court of Directors determined upon a single silver standard for the East and ordered that the current coin of Madras should be a silver coin of a weight of 180 grains

* The earliest known coins of the Bombay Mint are the 4 Rupees in the British Museum of 1675, 1678 and 1768. The first has the stamp on the reverse of the arms of the Old East India Company and the remaining 3 have the arms of England.

$\frac{10}{12}$ fine. 350 such rupees were equal to 100 Pagodas. But these new coins were not issued upto January 7, 1818. As the decree would show the Company intended early in 1806 to issue a uniform coin in their Asiatic possessions. They had, however, to wait 30 years before this design could be carried out. It was only by the Act of 1835 that a uniform silver rupee and the corresponding pieces of $\frac{1}{2}$ rupee were introduced throughout all India as the legal means of payment. The type chosen for the Company's new rupee was that of Madras as it was issued in 1818 containing 180 grains gross weight and 165 grains of fine silver. Since 1863 the rupee has ceased to contain the escentcheon of the East India Company, and instead has been provided with the effigy of the reigning English sovereign with the name on the coin and the year of its mintage, on the back.

GOLD COINS BEFORE 1835.

Like the silver rupee the gold mohur of the Mughals had the same old weight of 100 ratis or 175 grains of gold. After 1785 the East India Company tried to introduce a single gold standard in India; but the attempt was frustrated, as the gold mohur was not adopted as the legal means of payments in public and private obligations, nor was the ratio between the rupee and gold mohur quite stable. The mohur, though coined, was very seldom struck; and its market price was subject to fluctuations, silver being the common standard of value throughout the country.

By the Act of 1835 it was said "no gold coin shall henceforth be a legal means of payment in any of the possessions". The gold coin of Southern India was the native *Varaha* (Vishnu's boar) or *Hun* as the later Mohammedans called it. Before 1818 the current gold coin in Madras was a Star Pagoda, so called from its device. It contained 42.048 grains of fine gold, and was valued at 7sh. 5 1/3 d. By a Proclamation

of January 7, 1818, the new silver rupee was introduced as a legal means of payments in the Presidency and the coinage of Pagodas was stopped. In 1820 the minting of gold coins was restricted and their legal tender power was likewise limited.

Since 1835 when the single silver standard was adopted by the East India Company, attempts have been made to introduce gold in the Indian coinage system. On January 30, 1814, a Proclamation was made by which the public treasuries were instructed to receive gold mohurs for Rs. 15 and thus the gold mohur became a legal payment at the treasury. No gold, however, was coined, and though the profit of seigniorage was very little, in 1845 hardly any gold was in circulation. About the middle of the last century came the Australian and Californian gold discoveries. The price of gold fell as a consequence; and so by an ordinance of December 22, 1852, the right to pay gold at the treasury was withdrawn from January 1, 1853. Ten years later during the cotton famine the importation of precious metals into India was enormous, and the chambers of Commerce of Bombay and Madras once more agitated for introducing the gold standard. In consequence on November 23, 1864 the public treasuries were instructed to receive English sovereigns at the rate of Rs. 10 and half sovereigns at Rs. 5: respectively.

Another result of this agitation for the introduction of gold was the appointment of the Mansfield Commission which reported on October 4, 1866 on the monetary system of India. The use of gold as the legal means of payment was recommended, reckoning 1 sovereign at Rs 10-as 4. But before this scheme could be carried out there followed another revolution in the relative values of gold and silver, whereby silver depreciated enormously owing to the demonetisation of silver by Germany and France. The consequent export of large

quantities of silver to India led to a fall in the value of silver as compared to gold in this country. The Indian Government were very much inconvenienced by this new phenomena since they obtained all their revenue in silver, while they had to meet heavy obligations in gold in England. Silver, which only 20 years before *i.e.* in 1852, was supposed to have a value equal to Rs. 10 per £1 if not more, fell rapidly till it touched as much as 1s. 1d. per rupee 20 years after the demonetisation of silver. To the Indian Government this was a serious embarrassment, since the fall of a single penny in the value of a rupee meant roughly a charge of a million pounds on the revenue. Naturally, they were anxious to take steps for stabilising the value of silver; and between 1837 and 1892 they kept up a continuous correspondence on this question with the India Office. No conclusion could be reached by this correspondence, and no agreement could be arrived at in such monetary conferences which were held at Paris, Brussels and in the United States to settle the relative values of gold and silver. At last a commission was appointed in 1892 presided over by the then Lord Chancellor, Lord Herschell; and on the report of the Commission the Indian Mints were closed in 1893, Government intending to bring about an artificial rise in the value of the rupee by restricting its coinage. For 6 years they refrained from coining and their intention, though apparently frustrated at first, was eventually realised. In 1899, in spite of the continuous fall in the value of silver bullion, the exchange value of the rupee rose to 1s. 4 d. or Rs. 15 to the pound sterling. This was just the value which the Government intended to give to their rupee, and so by a Proclamation of 1899 they fixed the value of the rupee at this figure, agreeing to give Rs. 15 for every sovereign tendered at the public treasuries whether in India or in England, and promising to do their best to give a sovereign in return for Rs. 15.

CHAPTER III.

METALLIC CURRENCY IN INDIA FROM 1899-1914.

We have already traced the history of the Indian coinage system to 1893 when the mints were closed to the free coinage of rupees on private account. To understand the present position of the metallic currency in India, it would be necessary to give a brief outline of the history of the system from 1899, when it was established, on the recommendations of the Fowler Committee, till August 1914 when the world War broke out. We shall discuss in a later chapter the state of Indian currency during the war and after, but for the clearer realisation of the Indian currency system this brief sketch of nearly fifteen years' working would be quite sufficient.

I. RECOMMENDATIONS OF THE FOWLER COMMITTEE.

When the Indian Mints were closed to the unrestricted coinage of silver on account of private persons, the Government of India seem to have contemplated, in the near future, the introduction of a gold standard, with possibly a new Indian gold coin, or probably the English sovereign bodily. It was, perhaps, with that intention that the Government, by a Notification of 1893, declared that gold coin and bullion would be received at the mints in exchange for rupees and notes at the rate of 1 s. 4 d. per rupee, and that the English gold coins—the sovereign and the half-sovereign—would be similarly received in payment of government dues. The falling value of silver rendered this notification inoperative for the moment. In 1892-3 the average rate of exchange for the rupee was 1 s. 1 d. In the two

The rupees coined in and before 1893 continued to meet the increasing demand for the current coin. But the continued refusal by the Government to mint any more rupees all through the six years ending March 31, 1899*, gradually raised the exchange value of the rupee, till in 1898-9 the average reached 1 s. 3.8 d., only .2 d. less than the rate contemplated by the Notification of 1893. About this time the Fowler Committee had presented a lucid, comprehensive and practically a unanimous report advocating a Gold Standard for India, with a concomitant gold currency. The recommendations of that Commission, whose report is deservedly regarded as a classic in the history of the Indian currency, may be summarised as follows:—

A gold standard should be introduced in India, and the rupee should be reduced to the position of a token coin, with a conventional value of 1/15 of the pound sterling. The mints should be re-opened to the coinage of gold for the public; but they must remain closed for the coinage of silver, for the latter being only used for token currency which resulted in considerable profits to the coining authority, it was but fit and proper that such profits should be enjoyed by the State on behalf of the community at large. The profits arising from the coinage monopoly of silver were to be set aside to form a special reserve in gold to be used if required, for the minting of a new gold coin for India; though the Committee seem to have desired and favoured the bodily introduction of the English sovereign into the Indian currency system.

Acting on these recommendations the first step of the Government of India was to make the English sovereign Legal

* No rupees were coined by the Government of India in these years except in 1897-8-9, when, under an agreement with the Native States of Bhopal and Kashmir, the currency of those States had to be replaced by the British rupees, and the Government, therefore, coined, on account of those States, some rupees in 1898.

Tender in India at the rate of Rs. 15 £1. They did not, however, deprive the rupee of its unlimited legal tender quality; and, consequently, the currency was composed for a very large portion of token silver coins with an unlimited legal tender, and a very small proportion of British gold coins, also made unlimited legal tender. It was indispensable that Rupees should be coined in large quantities to meet the demands of trade and to make up for the loss caused by the ordinary wear and tear. The coinage of rupees, however, led to very heavy profits, and so in 1900, when for the first time after 1893 the Government of India coined new rupees, the Gold Reserve Fund was instituted as a consequence in 1901 out of the profits of this coinage. This Reserve, as we shall explain more fully later on, was intended to facilitate the eventual introduction of a gold currency in India and meanwhile to keep steady the exchange value of the rupee at the point fixed in 1899. As regards the introduction of a gold currency the Government of India corresponded with the Home Authorities on the subject for the best part of 4 years; but as no agreement could be reached—whether for introducing in India the English sovereign or for minting a new gold coin for India the matter seems to have been dropped sine die early in 1903. Meanwhile, however, while the negotiations were proceeding, and perhaps by way of preparing the ground for carrying out what they thought was a certain decision, the Government of India endeavoured to introduce gold coins in India. They instructed the Post Office and authorised their Treasuries to tender gold in the first instance for every demand upon the government. It has been estimated that between January 1900 and March 1904 a sum of nearly £7 million in gold was put into circulation by these means in India. A portion of this sum remained in circulation; but a much greater portion seems to have been returned to the govern-

ment*. The position of the gold coin in India is therefore as follows:—There is no special gold coin of the Government of India, but the Sovereign is, by the Act of 1899, Legal Tender in India at the rate of Rs. 15 = £1. The Government is bound to give Rs. 15 for every sovereign tendered, though, since 1906, they have withdrawn the old notification of 1893 which had directed the issue of rupees or currency notes against gold, whether coin or bullion. On the other hand government is *not* bound to give gold coin or bullion against rupees at the fixed rate, though, for administrative convenience, they would do their best to issue gold at that rate in London for the otherwise exporters of gold from India.

The position of the Indian currency, we must repeat at the risk of becoming wearisome, is that the bulk of the local circulation consists of the token silver coins, whose legal tender value is far above their intrinsic value. After the short-lived effort in 1899-1904, no sovereigns have been added to the circulation, except those which have been imported in the ordinary course of trade. But even these the Secretary of State does his best to divert from India, by declaring his willingness to sell Coun-

* Table showing the addition of gold coins to the currency in India, (in thousand sterling),

Year.	Net addition to sovereigns in the hands of the public.	Year.	Net addition to sovereigns in the hands of the public.
	£		£
1901-02	967	1908-09	3,443
1902-03	2,198	1909-10	2,866
1903-04	3,278	1910-11	8,091
1904-05	2,937	1911-12	8,881
1905-06	3,732	1912-13	11,300
1906-07	5,156	1913-14	3,907
1907-08	7,427	1914-15	5,623

cil Bills on India at 1 s. 4½ d. the rupee without limit i.e. over and above his own needs as shown by the Home Charges. The intention of the Fowler Committee has been defeated, for in India itself there is neither a gold standard, nor a gold currency, nor a free mint for gold. An entirely new system has grown up the operation of which, explained below, is as interesting as it is delicate.

Before, however, we describe the working of the present system it is necessary to invite attention to two points of considerable importance. The first of these relates to the reform of the coinage. No systematic attempt had been made in the sixty years that elapsed from the establishment of a uniform coinage system in 1835 to the closing of the Mints in 1893 for reconsidering the design and appearance of the coins, or withdrawal of worn out coins. Most of the older coins were greatly worn out, but as all were equally legal tender the newer and better coins went, according to Gresham's law, into the miser's hoard or the bullion-dealer's chest while the older and worn ones constituted the bulk of the currency. The Government ordered in 1896-as a first step to the reform of the coinage-that the Presidency Banks and public Treasuries should not reissue any rupees of 1835 that they might receive, and five years later similar orders were issued for the first and second issues of 1840. The first issue belongs to 1835, but the issue technically called "first" issue was in 1840, and the so called second issue consists of coins minted between 1841-1861 all of which bear the date 1840. By 31st of March 1904, 2½ crores of 1835 rupees and 14 crores of 1840 were withdrawn from circulation. The mints, while closed to the public, were yet busy replacing the old rupees, and working also for those Native States which had agreed to demonetise their own coins and replace them by the British rupee. Between 1893-4 and 1903-4 the total out-turn

of the mints amounted to Rs. 55.9 crores, of which Rs. 29.7 crores was a net new addition to the currency.

The second point relates to the currencies of the Native States. On the break-up of the Moghul Empire numerous princes assumed for themselves the right of coinage, and the right was not taken away when these principlities came under British suzerainty. Of course the local currency of those States which, like the Punjab, Nagpur or Oudh, were annexed, was gradually replaced by the British rupee. Still in 1893 there were 34 States with their own mints issuing coins bearing the device of the State and current within the limits of the State. The weight and fineness of these coins were necessarily different from those of the English rupee, and the difference caused considerable inconvenience to local trade. In 1876 an Act was passed authorising the Governor-General to declare the coins of the Native States of the same weight and fineness as the British rupee to be legal tender in British India, and authorising the Native States to send their bullion for coinage at the British mints. Alwar and Bikanir were the only States that availed themselves of this privilege. When in 1893 the British mints were closed the value of the silver coins of the Native States fell considerably—below that of the token British rupee. The States and their subjects—with their obligations towards British subjects in British rupees suffered considerable loss. In the State of Cuttack, for instance, the value of the local Kori—which is usually $\frac{1}{4}$ of a rupee and the rupee—exchange value of which was fixed by the State for the purpose of paying those of its public servants who were British subjects at Ks. 379 = Rs. 100 had such a decline in the value of its standard coin that in 1900 it fell to as much as Koris 600 Rs. 100. To the new conditions caused by the closure of the mints, the provisions of the Act of 1876, the Government of India declared, did not apply; but they agreed to buy their existing rupees at their current

market value, and to supply British rupees instead. Sixteen States, including Kashmir, Gwalior, Baroda and Bhopal, accepted this arrangement, and only about 14 states remain outside even now. In 1919, a Committee was appointed by the princes Conference to consider and report upon the possibility of unifying the currency system of India. As the committee was purely advisory its report has had very little value. It can never be urged too strongly that for the facility of the internal trade of India, it is of the utmost importance that the currency systems be unified, co-ordinated and centralised. The states having a separate currency organisation would indeed have to make a sacrifice. But the sacrifice would be more sentimental than substantial. And even admitting the sacrifice it would not be impossible to devise a fair basis for compensation. Internal differences in the currency system of India must be abolished if her local trade is to flourish.

We shall now proceed to describe the operation of the present system. The Gold-Exchange Standard, as our currency system has been academically christened, "arises out of the discovery, that, as long as gold is available for payments of international indebtedness at an approximately constant rate in terms of the national currency, it is a matter of comparative indifference whether it forms the actual national currency." (Keynes). This system, it has been said, has had to be adopted by the leading civilized countries in one form or another. In other countries, as in India, it is of the utmost importance to economise gold in order to use for the purpose of the international indebtedness. They achieve this either by amassing a huge store of gold, or by suspending free payments in gold in times of crisis, or by holding larger reserves of foreign bills. The first of these methods is adopted almost exclusively by England, the first and second by France, and chiefly third by Austria-Hungary and

Russia. These, in times of crisis, instead of having to export gold, simply discount their foreign bills in the foreign centres and thus obtain a sufficient amount of gold to meet their obligations. This system is most convenient, is argued, for nations who, having always to pay more than they have to receive, must always have a ready stock of gold to meet the usual demands on them. And they might conceivably be embarrassed to meet these demands if their gold should get into the hands of the people at large and be not forthcoming at the time of the crisis. They might, indeed, accomplish their object by having a large reserve of gold to be used for such purposes; but to keep such a large amount in gold always idle in order to meet a demand which may not be made even once in ten years, would be unjustifiable waste. Hence the growing practice for the debtor countries to keep a great proportion of their gold reserve in the shape of foreign bills, allowing very little gold to get into circulation within the country, but practically guaranteeing payments in gold for all foreign obligations. To creditor countries like England and France this is not very important, and so they still continue the more old-fashioned and wasteful methods of keeping a considerable gold reserve in specie.

The position of India is peculiar. Normally speaking she is a debtor country, who has to make immense annual payments for interest on debt pensions and furlough allowances to her public servants, purchase of stores etc. These are collectively known as the Home Charges having to be paid in gold in England and amount to £20,000,000 in round figures. The payment for these is received and has continued to be received from the days of the Company by means of bills drawn by the Home authorities on the Government of India. These bills are known at present as the Council Bills from the Secretary of State for India in Council being the

authority who manipulates these bills. From the Home Charges must be deducted the amount borrowed in England on account of the Government of India; and, as, before the war, India used to be a standing borrower in the London market every year, the total drawings of the Secretary of State for India for the purposes of the Home Charges would be generally much less, say £ 15,000,000. But against these charges India almost always had to receive a considerable sum from England on account of her favorable balance of trade. Thus there were two streams of payments, one from India to England for Home Charges and amounting, after deductions, to £ 15,000,000, and the other from England to India the amount of which varied according to the state of the foreign trade, but was usually greater than the Home Charges. The authors of the present system of currency in India saw in the co-ordination of these two streams an admirable expedient to maintain the certified value of the rupee. The Secretary of State, accordingly, announced in 1904, that he would sell bills on India *without limit* at 1s. 4½ d; and the modern exponents and champions of the Gold-Exchange Standard discovered in this the most economical and scientific system of currency, even though the system ignored altogether the recommendations of the Fowler Committee.

The mechanism of the Council Bills is thus the pivot on which the whole system turns, and we must sketch briefly the procedure for the sale of these Bills before examining critically the present system. Every week the Secretary of State announced the amount for which he was willing to sell Bills on India, with a minimum reserve price which was not published and which was seldom reached. On Wednesday morning the Bills were offered for tender at the Bank of England. The tenders name the amount proposed to be bought and also the rate of rupee in pennies at which they propose to buy. The total amount is then allotted among

the highest bidders, the Secretary of State announcing at the same time the amount he would sell in the following week. This amount would be larger than that of the previous week if the demand in that week had been brisk. During the interval between successive Wednesdays the Secretary of State is willing to sell what are known as "Specials" at a rate $1\frac{1}{32}$ d. higher than the higher rate of allotment on the preceding Wednesday. These Bills are paid for in cash by the recipients, and are then mailed by them to be cashed in India. As in normal times the mail used to take about a fortnight in transit the Bills would not be paid in India in rupees till about fifteen days after payment for them has been made in gold in London. Those, therefore, who do not want to lose the interest on their money for a fortnight which would, at 5 per cent. be approximately £2 per £1000 or roughly $\frac{1}{2}$ d. per £1—would be willing to pay something more for the so-called "Telegraphic Transfers," for which payment is made in India a few hours after they are paid for in England. To accommodate such people the Secretary of State is usually willing to sell the Telegraphic Transfers at a rate $1\frac{1}{32}$ d. per rupee higher than that of the bills. The Bills and Transfers are payable at Madras, Calcutta and Bombay at the option of the purchasers, and in rupees or currency notes.

The Council Bills have thus a much wider scope than before. Before 1900 they were only an ordinary commercial expedient to effect the transfer of money from India to England in order to pay the Home Charges. Since that date they are used to finance trade and divert the flow of gold to India. The reasons for such an action are:—(1) material gain to the extent of $1\frac{1}{2}$ per cent. or nearly £ 15000 on every million sold beyond the needs of the Home Charges. For as rupees can be always had in India in exchange for

sovereigns at the rate of Rs. 15 per sovereign, the banks and other financial houses will remit gold to India instead of buying the Councils if the rate asked for the latter is more than the cost of sending gold to India. That cost varies according to the state of trade, but, before the war, was seldom higher than 2 d. per £. If the Secretary of State refuses to sell under 1 s. 1½ d. per rupee at the time when the banks require rupees in India, gold will flow. This gold will be presented at the Indian Treasuries to be converted into rupees; and if the practice goes on for a long time, the Government of India would have to buy silver in England for coining more rupees. The payment for the purchase of the silver will have to be made by shipment of the gold which would have accumulated in the treasuries; and thus the Government of India would be losers on both sides, once by the Secretary of State refusing to sell Council Bills below 1 s. 1½ d. per rupee which results in a loss of say 3/32⁵ per rupee, and again by the cost of transport of gold to England for the purchase of silver-another ½ d. or a total loss of 1 d. per rupee. (2) Besides, holding gold in the currency Reserves in England has its own advantages. For, in times of emergency like those of 1907-8, the process has to be reversed, and the Government of India have to issue Sterling Drafts on London, there must be a fund to pay them from in London. In the absence of such a fund the Government of India would have to ship gold which would be costly, apart altogether from the risk of not being able to find gold when wanted for export. (3) Moreover free sale of Council Bills has the effect of transferring the balances of the Government of India from India to England, which, it is claimed, result in strengthening the credit of India for carrying out any loan transactions. And even if that is not the object, such a transfer may enable the Secretary of State to earn a small amount as interest. These reasons have influenced the policy of the Secretary of State to such

an extent that he has in the past sold Bills at a rate which would not only prevent gold from being shipped from England to India, but also prevent it from being shipped or diverted to India from Egypt and Australia.

In the course of the foregoing description we have referred more than once to the Gold Standard Reserve. Let us say here a word in explanation of the origin and present position of that reserve. Apart from their cash or treasury balances the Government of India have two reserves—the Paper Currency Reserve and Gold Standard Reserve. Though the two are now closely connected we shall treat them separately for the sake of clearness, discussing the latter in this chapter, and leaving the former to be dealt with in the chapter on the Paper Currency in India. The Gold Standard Reserve dates from 1902, when it was started under the style of the Gold Reserve Fund, and was composed of the profits, arising from the coinage of rupees, amounting to £3,000,000, which were from time to time shipped to England, and there invested in sterling securities. As the demand for rupees increased, more were coined, larger profits accrued and the Gold Reserve Fund began to grow. We are not concerned here with the merits of the policy of the Government of India in respect to the coinage of rupees. Suffice it to say that rupees were coined at a feverish haste and the fund began to attain dimensions at which it was thought to be safe against all attacks. On 31st March 1906 the fund amounted to about £12½ million. In the latter half of that year further heavy coinage was undertaken to meet the demands of trade. To prevent the necessity of such a heavy coinage in a short space of time a silver branch of the Gold Reserve Fund was formed, and it was proposed that this branch should have 6 crores of rupees. This limit was reached in March 1907.

The Reserve now totalled £17 million of which £12½ million was held in England in sterling securities, £4 million in India in rupees, and the rest in gold in India and as a book credit. For a short time the fund was named Gold and Silver Reserve Fund, but it was finally called the Gold Standard Reserve in 1907. The events of the busy season of 1907-8 proved that the policy with regard to the Gold Standard Reserve was capable of considerable improvements. On September 1, 1907 the position of our sterling reserves was roughly as follows:—

Gold:

Paper Currency Reserve in India.	£. 4,100,000,
" " " " London.	£. 6,200,000.

Money at short notice:

Gold Standard Reserve (London).	£. 50,000.
Cash Balances (London).	£. 5,150,000.

Sterling Securities.

In Currency Reserve.	£. 1,300,000.
In Gold Standard Reserve	£. 14,100,000.
	£. 30,900,000.

Thus the Secretary of State had nearly £ 31 million of gold before there was the faintest suspicion of a crisis occurring. Of these, however, only about a third was in specie the rest being either investments or short loans. Of the specie portion, again, there was only £ 4,100,000 in gold in India the rest being in London. Then came the crisis. The rains were scanty in the monsoon of 1807, and by the end of September all prospect of a good harvest had finally vanished. The exports from India were falling, while the imports remaining very nearly the same, the balance of trade began to suffer. Meanwhile the financial

situation in America was rapidly passing through all the stages of a scare, a strain and a crisis. In the beginning of November the Bank of England, fearing an unprecedented demand for gold, raised its rate of discount to check the expected drain, and its effect was felt by the Secretary of State, who, on November 6, could manage to sell Council Drafts for only about £ 200,000. For several weeks after that he could not sell any bills at all. Beyond withdrawing, altogether from the money-market the home authorities of the Government of India took no steps to meet the situation. Deprived of his usual source the Secretary of State was meeting his current expenses from the gold portion of the Currency Reserve in London. There was at the same time setting in a strong demand for gold in India for the purposes of export. But the situation being quite new the authorities in India were unprepared to face it. The exchange value of the rupee, which in normal times had been maintained at over 1 s. 4 d. in the London market for seven years, was now steadily falling till on November 25, 1907 it reached 1 s. 3½ d. The Government in India were unwilling to allow their slender stock of gold to be paid out to the clamorous exporters, though it has since been argued that the bold step of giving out gold freely in the initial stages of the crisis might have stopped it. The Government, therefore, refused to give gold for export in larger quantities than £ 10,000 to any one individual in one day. It was not till the end of December that, the crisis continuing, bolder counsel came to prevail, and Government braced themselves to take all drastic steps for maintaining the exchange value of the rupee. They declared their willingness to sell Telegraphic Transfers on London if necessary at a fixed rate, and this offer was subsequently chang-

ed into one for selling sterling bills on London at the fixed minimum rate of 1 s. 3 $\frac{29}{32}$ d. per rupee. The exporters at once availed themselves of this, and within 3 months all the available reserves of gold in London were exhausted. The situation continuing weak, bills were sold in India at the rate of £ 500,000, and later £ 1,000,000 a week, and were cashed in London from the proceeds of the sterling securities from the Gold Standard Reserve. By August 1908 £ 8,000,000, out of over £14 million of securities, were sold to ease the situation. At the beginning of September 1908, within ten months of the crisis, the situation was, in round figures, as follows:—

<i>Gold:</i>	1907.	1908.
Currency Reserve in India	£4,100,00	£150,000.
" " in London	£6,200,000	£1,850,000

Money at short notice.

Gold Standard Reserve		
(London)	£50,000	Nil.
Cash Balance	£5,150,000	£1,850,000.

Sterling Securities

In Currency Reserve	..	£ 1,300,000	£1,300,000.
In Gold Standard	..	£14,100,000	£6,000,000.

So that against the £31 million which the Secretary of State had in September 1907, he had nearly £11,000,000 on year after. And besides the £20 million used from the various Reserves, the Secretary of State derived considerable assistance from India amounting to nearly £4,500,000. Thus one season of depression weakened the position of the Secretary of State to the extent of £25,000,000, and it is beyond question that another such season in the following year would have compelled him to borrow very heavily.

We have now passed in review almost all the important points relating to the present system of Indian currency.

And though hitherto we have tried to give as colourless a description of the situation as is consistent with the character of a book like this, we would be leaving our task incomplete if we did not attempt a critical examination and estimate of all these points. The events of 1907-08 proved that the position of the Gold-Exchange Standard in India was liable to a most serious attack in the event of a world-wide crisis. But the subsequent policy of the Government, while it went on strengthening the gold resources in England, did little to mitigate what the critics of the system considered to be the standing abuses of the system. A Royal Commission was, therefore, appointed in 1913 "to inquire into the location and management of the general balances of the Government of India; the sale in London of Council Bills and Transfers; the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition and the employment of the Gold Standard and the Paper Currency Reserves; and whether the existing practice in these matters is conducive to the interests of India; also to report as to the financial organisation of the India Office; and to make recommendations". The report of the Commission reads like an unmitigated apology of the present system, and the critics, therefore, were far from pleased. Let us, examine the grounds for criticism and the rejoinders by the advocates of the system. We may summarise the grounds of criticism as follows:—

1. The system as evolved and perfected in the years that followed the report of the Currency Committee of 1898 is in all essentials at variance with the recommendations of that committee. These recommendations for a gold standard with

a gold currency and a free gold mint-were publicly accepted by the Government; but after a short-lived, half-hearted attempt, they did nothing towards carrying out these recommendations. We propose to discuss in another chapter the proposals for a gold standard with a free gold mint and gold currency for India in which, therefore, this objection will be more fully examined. But the claim of the advocates of this system that it is the most scientific one is not well founded as far as it relates to India. In the *first* place, though India is a debtor country, her exports year in year out, as the following table shows, are always in excess of her imports. As far as the international balance of indebtedness is concerned, she, therefore, always has to receive a balance in specie, and hardly ever to pay anything, even after deducting the Home Charges.

Table showing the excess of Exports over Imports and Home Charges

Years.	* Imports.	† Exports.	Excess.	Home charges.
1899-1900	50,200	72,463	22,263	16,129
1900-01	53,929	71,812	17,883	16,982
1901-02	59,187	83,263	24,076	16,177
1902-03	57,212	86,264	29,052	17,667
1903-04	61,728	102,344	34,616	17,399
1904-05	69,608	105,148	35,540	18,827
1905-06	74,742	107,890	33,148	17,666
1906-07	78,161	118,019	39,858	18,333
1907-08	91,025	118,323	27,298	17,768
1908-09	85,852	102,025	16,243	18,323
1909-10	81,765	125,205	43,440	18,441
1910-11	89,133	139,974	50,861	18,605
1911-12	96,037	151,993	55,956	18,865
1912-13	111,086	164,446	53,060	19,502
1913-14	127,540	166,005	38,465	19,455

* The figures of Imports include Government Stores.

† " " Exports " Re-exports,

* The only year in which the balance of accounts was against her was 1908-09. The necessity, therefore, which other countries have of always maintaining a good reserve in gold for meeting their international obligations—whether in specie or in foreign bills in gold—is not at all intense for India. Other debtor countries must, indeed, see to it that their gold in circulation, if they have a gold currency, does not get so dispersed as to be impossible to lay hands on when required for export. But in India a demand for the export of gold, as a result of a falling off of exports, is seldom the case. And when it does occur once in a decade, the resources from the Paper Currency Reserve would be more than ample to meet such a drain, not to mention the possibility of relief by borrowing that year. We think of the resources of the Government, because the Government having to meet their Home Charges are bound to be the most important factor in the exchange market. In another chapter an attempt is made to show how, if our paper currency were based on gold it would serve to economise gold just as the notes now economise silver. And as regards the automatic adjustment of the amount of currency to the needs of the business community, which is claimed as a special excellence of the present system, we fail to see how the agency of the unlimited Council Drafts can make our system more automatic than the ordinary agency of commercial credit. This system of the Gold-Exchange Standard, therefore, while it has no doubt great advantages for a debtor country, is not in practice so eminently suited to India as it has been claimed to be.

2. Coming next to details, the location and management of the cash balances of India both in England and

in this country leave much room for improvement.

Table showing the Cash Balances of the Government of India and the budgeted surplus or deficit.

(In thousands sterling)

Year. †	Cash Balance in India. *	Cash Balance in England. †	Surplus or deficit.
	£	£	£
1899-1900	8,426	3,331	+ 2,774
1900-01	10,599	4,092	+ 1,670
1901-02	11,880	6,623	+ 4,952
1902-03	12,082	5,758	+ 3,068
1903-04	11,870	7,285	+ 2,997
1904-05	10,750	10,263	+ 3,456
1905-06	11,781	8,437	+ 2,902
1906-07	10,328	5,607	+ 1,589
1907-08	12,852	5,738	+ 306
1908-09	10,236	8,454	- 3,738
1909-10	12,293	15,810	+ 607
1910-11	13,567	18,174	+ 3,936
1911-12	12,280	19,464	+ 3,240
1912-13	19,543	11,419	+ 3,361
1913-14	15,608	12,477	+ 887

* These figures include the Reserve Treasury Balances as well as the Balances with the Presidency Banks.

† These figures include sums held in Secretary of State's balances on account of the Gold Standard Reserve.

‡ The Cash balances are at the close of the year.

Since 1908 it has been the policy of the Government of India to ship much of its surplus money to England, and to keep it there in gold. The *raison d'être* of such a plan is, no doubt, to strengthen the position of the Secretary of State in the event of a possible drain, to enable him to earn some commission and a small rate of interest, and to allow the Government of India to avail themselves of a favourable exchange. On these

grounds the Commission have reported

"We find no fault, therefore, with the course taken by Government in recent years; for, under the conditions hitherto laid down for loans in India, there was no effective demand for such loans and no use for the money in that country."

But in judging of these cash balances it must be remembered that they arise from surplus revenues, or an exceptional spell of prosperity in public enterprise. If they arise from a surplus of revenue they prove that the Finance Member has been unduly cautious in his estimates; and though caution is of inestimable value in all Finance Ministers and particularly so in those of India, it is not inconceivable that caution might be carried too far. Repeated surpluses over a period of fifteen years amounting in all to £ 30.75 millions after deducting the total deficits upto 1914-15, prove that more has been taken from the people than was required. Even so the surpluses and the balances may be justified, if they are used to prevent future burdens, or to lessen the present ones. The Government of India, however, have not apparently realised that unless a surplus is used to remit a portion of taxation, or to reduce, or avoid the burden of debt, it would be unjustifiable waste of public resources. The Commissioners seem to have taken it for granted that *"as far as the ultimate object (reduction or avoidance of debt) is concerned, therefore, to which a surplus balance should be applied, we hold that it must come to London."* They seem to ignore the possibility of a surplus balance being used to reduce taxation. They do not consider the question of reduction of debt in India. But even if we grant that the ultimate object i.e. the reduction or avoidance of debt, is best fulfilled by the surplus being shipped to London, what shall we say, of the practice of borrowing in London at the rate of 3½ per cent for the Government of India, when the Cash Balances

in the hands of the Secretary of State were allowed to remain invested at 2 per cent?

Table showing the Debt incurred in England

(In thousands of £.)

Year.	New Debts.	Cash Balance in England.
1899-1900	6,500	-3,331
1900-01	14,422	4,092
1901-02	6,009	6,693
1902-03	5,000	5,768
1903-04	3,500	7,295
1904-05	3,000	10,263
1905-06	14,480	8,437
1906-07	2,000	5,607
1907-08	10,777	5,738
1908-09	11,342	8,454
1909-10	15,069	15,810
1910-11	13,878	18,174
1911-12	7,355	19,464
1912-13	3,000	11,419
1913-14	...	12,477

Moreover the creation of such surpluses every year means the withdrawal from circulation of a large amount of currency, and that in its turn causes a considerable stringency in the money-market in India. It is true that stringency is relieved by the encashment of the Council Drafts in India. But the demand for Councils is affected by different factors from those governing the money market. A high Bank Rate in England, or the withholding of the Indian produce in the expectation of high prices may make the demand for Councils slack, while the revenue collections would go on at their customary pace. Moreover the demand for Councils arises only after the Indian produce is exported, while the demand for money is high in India from the time the crops have to be moved. In this

respect, therefore, the policy of hoarding up considerable funds in England in the shape of Cash Balances cannot be defended. We cannot, of course, suggest that there should be no cash balance left in England. So long as we have to pay heavy sums by way of Home Charges we will have to remit money to England; and a part of this will inevitably remain idle in the hands of the Secretary of State. We would suggest, however, that (1) the Finance Member should not-as has been the unfortunate practice in the past-budget deliberately for a surplus of over £ 500,000, if even that much; (2) that when the accumulating surplus should exceed £ 5,000,000, remission of taxation should occupy his attention in the first place; (3) that failing any satisfactory scheme for remitting taxes, the sum, or at least one-half of it, should be employed to avoid fresh indebtedness, supposing further borrowing at the time was necessary; (4) that if no scheme of remitting taxes could be devised, and no further borrowing were necessary, the moneys so accumulated should be used to reduce the public debt, preference being given to the reduction of the rupee debt in order to improve the tone of the Indian money-market and to strengthen the credit of the Government of India in this country; (5) that there should not be at any time more than £ 5,000,000, as cash balance with the Secretary of State in London; the Government of India remitting money from time to time as required for the purposes of meeting the Home Charges.

3. The next point in the working of the Indian system of currency is in relation to the sale of Council Drafts. As already explained this is the hinge on which the whole mechanism is based. They are a means of maintaining the exchange value of the Rupee at or near ls. 4 being sold in London at ls. 4½d. per rupee and thus preventing the value of the rupee appreciating, and being sold in India, in an emergency,

at 1 s. 3½ d. to prevent the rupee depreciating. They have incidentally helped to convert the surplus resources of the Government of India into gold in London and at the same time to prevent gold from flowing into India. The Commission of 1913, approving of these objects deprecated any pre-determined limitation of the sale of Councils as "arbitrary and unnecessary," though it was recognised that "the interests of trade are in themselves no justification for sales of Council Drafts in excess of requirements as we have defined them." They, therefore, left the determination of the limits within which the Councils should be sold to the discretion of the authorities concerned. This discretion, however, is open to criticism on more than one ground.

Table showing the total sales of Councils and Home Charges.

Years.	Sales of Council Bills and T. Ts. 000 omitted.	Home Charges. 000 omitted.	Average rate per rupee in pennies.
	£	£	d.
1899-1900	19,069	16,129	16·067
1900-01	13,300	16,982	15·973
1901-02	18,539	16,877	15·987
1902-03	18,499	17,667	16·002
1903-04	23,859	17,399	16·049
1904-05	24,425	18,827	16·045
1905-06	31,566	17,666	16·042
1906-07	33,432	18,333	16·084
1907-08	15,307	17,768	16·029
1908-09	13,915	18,323	15·964
1909-10	27,416	18,411	16·041
1910-11	26,463	18,003	16·060
1911-12	27,058	18,333	16·083
1912-13	25,759	18,986	16·058
1913-14	31,200	19,455	16·070

(a) The sale without limit of Council Drafts, as has

been the practice since 1904, prevents the natural flow of gold in India, which is detrimental to the interests of India. It is true that to allow gold to flow to India would result in the Government of India losing on a double shipment something like £ 15,000 on every million pounds. And as by the unlimited sale of the Councils, the Government send annually about £ 10 millions or so in excess of its requirements, it would lose, on this argument, about £ 150,000 every year. But this argument is based on a misconception. The Government knows, or should know, at the beginning of each financial year, the amount which it has to send to England for meeting the Home Charges. To the extent of this sum the Councils must, no doubt, always be sold. In addition to these the Government of India might conceivably want gold in England for the purchase of stores and for silver bullion for coining rupees. But the former is always included in the Budget estimates of the Government of India, and is provided for in the same way as the Home Charges. The latter is, it may be admitted, an uncertain factor. (b) But the remedy for it is a more considered and scientific policy for the coinage of rupees than the one followed so far, and not an indiscriminate accumulation of gold resources in London. We shall examine below at some length the policy of the Government of India in relation to the coinage of rupees. Suffice it here to say that if as is quite possible, the coining needs of the Government of India are determined in advance, provision can be easily made for the purchase of silver in the Budget. It may be urged that in view of the prevailing speculation in silver it would be impolitic to declare publicly the needs of the government in advance. But the Government would have the option of buying in any part of the year, and speculators cannot keep up prices all through the year in expectation of the government purchases. Moreover Government need not coin rupees every year.

and the more prolonged the period during which purchases may be made the less significant is the risk of loss likely to be caused by the action of speculation. But the best answer to this plea for indefinite gold resources to be held in London on behalf of the Government of India would be the discontinuance of the coining of silver altogether. We shall discuss elsewhere the methods by which this can be accomplished without dislocating entirely our currency organisation. We shall content ourselves in this place by merely remarking that, if it could be done, it would remove the most uncertain factor and so obviate the need for accumulating gold resources in London. (c). Another, and totally different objection to the unlimited sale of Councils in London is based on the fact, that in the event of a serious financial crisis in India, and with a heavy balance of trade against India, the absence or scarcity of gold in India may well render the Government of India extremely nervous about the exchange value of their local standard of currency. It is admitted on all hands that it was the relative scarcity of gold resources in India which prevented the Government in the crisis of 1907-8 allowing a free export of gold. Legally the Government is not bound in any way to give gold in exchange for rupees at the fixed rate. The issue of gold in India, therefore, in times of crisis, depends entirely on the convenience of the Government. If that convenience does not permit a free issue of gold, then for all we know, the exchange value of the rupee may fall till the fall is arrested by the intrinsic value of the silver in the rupee. This, if it ever happens, would defeat altogether the intentions of the authors and advocates of the present system. It is to be hoped, of course, that the lessons of the crisis of 1907-8 will not be lightly forgotten, and that at the first glimpse of the likelihood of an adverse exchange to India beyond the gold export.

point (1s. 3½d. per rupee) the Government will offer, as they so tardily did in 1907-8, to sell freely Sterling Drafts on London at a fixed rate, not below 1s. 3²⁰/₈₂d. per rupee. But even so the position of the Government of India would be better, their credit materially stronger, and Indian money market appreciably easier in such a crisis if they had gold in India which they could allow for free export. The mere knowledge of an available gold fund, coupled with an official declaration permitting its free issue, would act as a charm to prevent any ordinary crisis from assuming a grave aspect. And in the case of a serious crisis the Government will have to be as good as their word, and permit a free issue of gold to genuine exporters. To do so might mean a depletion of their gold resources in one season to the extent of about 10 million pounds at the utmost, which they can easily accumulate again within a couple of years. It may, indeed, be argued that such a procedure would involve the Government of India in a needless loss of £80,000 to £100,000 in the year of the crisis. But such a loss, even if it does occur, will occur once in 10 years at the utmost; and if at the cost of £8000 to £10000 a year the Government could purchase a permanent improvement in their credit and ease in the Indian money-market, such a cost would, indeed, have been well-incurred. Moreover it is not quite accurate to speak of this amount as a loss to the Government; it only represents an absence of gain to this extent.

On this point, then, we may summarise our suggestions that: (1) The unlimited sale of Council Drafts in London is prejudicial to the interests of India; preventing as it does the natural flow of gold to India in the short-sighted desire to gain a small and doubtful advantage. (2) The amount of the Home Charges, representing the gold liabilities of the Government of India being well-known, as also the amount of such other purchases as may from time to time have to be

made in England, these suggest easy, practical and reliable limits to the sale of Councils in London. (3) A slight margin of say 10 per cent. of the above may be allowed for 'prudence' sake and with a view to meet unexpected difficulties. (4) The question of purchase of the silver being an undeterminate quantity will not falsify the limits mentioned above if a well-planned scheme of silver coinage is adopted; and it will be entirely besides the point if the coinage of rupees is discontinued altogether.

4. As arising out of the question of the sale of Council Drafts, which has just been considered, the question of the coinage of rupees in India may next be discussed. The coinage of rupees on a considerable scale after the closure of the mints to the public in 1893 was first undertaken in 1900. In the five following years there was a steady annual demand for fresh rupees, and the minting operations went on all through that period, being rather slack in 1901-2, and rather brisk in 1903-4, but never abnormal. In 1905-6 the demand gathered pace. In July 1905 the Government had silver reserve value at £12,250,000 or 18.37 crores of rupees. But this heavy reserve was soon used up by the coinage operations of the months that followed. In December 1905 the whole of the bullion reserve had vanished and the rupee reserve had fallen to 7.61 crores. Meanwhile, the demand for Councils in London continuing as brisk as ever, fresh coinage was inevitable, and Government began to buy silver hurriedly and at a high price. But time had to be allowed for newly purchased silver to be minted, and the Secretary of State had to raise the price of telegraphic transfers to 1s. 4d. The new coinage, when it became available, was more than adequate to the demand and so this incipient crisis was averted. But the experience of this year led the authorities in India to believe that there was an insatiate demand for their token

silver rupees; and they, therefore, embarked on a career of furious coinage. They forgot that while more currency is needed in times of expanding trade and general prosperity, the excess is sure to be returned to the treasuries or affect prices in times of depression. They forgot that the effects of heavy coinage in successive years are cumulative. They overlooked the lessons of past experience, when the rupee was worth no more than the bullion it contained, when it was more profitable to melt down or hoard up and yet a succession of years requiring heavy coinage was almost always followed by reaction. In this case reaction came soon enough. We have already sketched elsewhere the events of the year 1907-8 when the exchange value of the rupee fell below the gold export point. Rupees were withdrawn from circulation and tendered at the treasuries more rapidly than Government could give gold for them. By March 1908, Rs. 11.5 crores were withdrawn from circulation, and the figure reached Rs. 15.4 crores in December following. Another sum of Rs. 13 crores was withdrawn, by being credited to the Gold Standard Reserve in India, by November 1908. On the whole, therefore, the active circulation was reduced to the extent of nearly 28.5 crores or £19,000,000. Since then India witnessed a continuous prosperity and expanding trade right up to the eve of the war; and as her Government, wiser by the lessons of 1908, had accepted a policy of coining rupees only when the need for them was palpable, there was no serious danger since that time. But this story would have been recounted in vain if it did not disclose that the policy of coining rupees has in the past been open to just criticism. The following table shows the amount of rupees coined every year; and the figures might, by careful hand-

ing, be made to supply a good working rule for new coinage every year.

Whole Rupees coined and issued from the
Indian Mints from 1835.

	000 omitted.		000 omitted.
1835	... 16,39,78	1892	... 10,46,55
1840	... 31,16,70	1893	... (a) 7,87,30
1840	... 76,65,60	1897	... (b) 15,24
1862	... 70 69 12	1898	... (b) 75,19
1874	... 4,35,22	1900	... (d) 11,81,39
1875	... 3,09,91	1901	... (e) 10,91,35
1876	... 4,09,50	1902	... (f) 9,31,39
1877	... 13,48,06	1903	... 25
1878	... 9 65,85	1903	... (g) 10,23,47
1879	... 8,17,28	1904	... (h) 16,02,78
1880	... 7,21,85	1905	... (i) 12,74,60
1881	... 5,597	1906	... (j) 26,87,50
1882	... 7,14 87	1907	... (k) 25,22,49
1883	... 2,31,46	1908	... 3,09,32
1884	... 4,84,88	1909	... (l) 2,22,97
1885	... 9,90,30	1910	... 1,76,88
1886	... 5,20,24	1910	... 58,23
1887	... 8,86 00	1911	... 94,43
1888	... 7,07,68	1912	... (m) 12,41,19
1889	... 7,46,68	1913	... (n) 16,32,05
1890	... 11,76,41	1914	... 4,83,70
1891	... 6,41,69	...	...

(a) Includes Rs. 590 thousands for the Bikaner State.

(b) On Account of Kashmir and Bhopal recoinage.

(c) Includes Rs. 2,09,02 thousands coined for Native States.

(d) " " 1,90,43 " " "

(e) " " 2,98.86 " " "

(f) " " 11,66 " " "

(g) " " 5,94 " " "

(h) " " 3,28 " " "

(i) " " 3.90 thousands coined for the Native States (calcutta 32 Lakhs and Bombay 135 Lakhs) coined from Gold Standard Reserve silver.

(j) " " 94 thousands coined for Native States and 433 Lakhs coined from Gold Standard Reserve Silver.

(k) " " 1.01 thousands coined for Native States.

(l) " " 16,56 " " "

(m) " " 12,78 " " "

Without any reasonable, well founded estimate of the capacity of the country to absorb new rupees, without even any reference to their own experience in the busiest season of 1905-6, Government coined rupees and thus deliberately depleted their sterling reserves. For, every rupee added to the circulation meant corresponding withdrawal from the gold reserves. Not to coin fresh rupees when trade is expanding may possibly expose the traders and merchants to some temporary inconvenience. And if this inconvenience amounted to serious emergency Government could always buy silver when wanted, and resume their coinage operations, the Indian mints being able to turn out 13 lakhs a day without overtime. It is true that to go into the market to buy silver at a moment's notice may oblige the Government to pay a fairly stiff price. But even that loss is preferable to the risk of indiscriminate coinage of rupees which would be the alternative. Besides the necessity to buy silver at a moment's notice is not inevitable, for by the exercise of a little foresight, the needs for rupees may be estimated in advance for all practical purposes. And if such an estimate is impossible we have to choose between two evils—the possible inconvenience to traders for want of rupees and the probable depletion of the sterling reserves. The two evils need but be mentioned thus side by side to show which must be selected if a choice is inevitable. We may then summarise our conclusions in this section as follows;—

(a) The Government of India would do well to adopt the policy of the French Government in minting their silver coins.

as interest and discount, while the securities held had depreciated to the extent of £ 680,702, and losses amounting to £ 150,083 had been incurred on the sale and redemption of securities. Miscellaneous charges had amounted to £ 18,480." The depreciation has been much greater since. The shock to public confidence by such depreciations remains as great as ever. The investment of this Reserve in even the best securities is reprehensible, and the Chamberlain Comissoin reported "*We are of opinion that the actual gold held in the Gold Standard Reserve should stand at a much higher figure than £ 5,000,000.....In our opinion the best rule in the present circumstances would be that no less than one-half of the fund should be held in actual gold when the total fund exceeds £ 30,000,000, and that a minimum amount of £ 15,000,000, should be accumulated as rapidly as possible.*" This leads us to the discussion of the amount of the Reserve. There are three tests by which we might determine the amount viz. (1) the conversion requirements of the token currency, (2) the trade needs of India, (3) the Home Charges. All these tests, of course, are not mutually exclusive. To begin with the first it has been asserted that the total amount required in the Gold Standard Reserve would be some £ 120,000,000 to £ 150,000,000 if all the rupees and notes in circulation were made convertible on demand into gold. This estimate, however, is based on the misconception that, if conversion is permitted, all the rupees and notes will be immediately presented for being exchanged into gold. Some paper money must remain in circulation, for even gold is too cumbrous for large payments. On the other hand a great portion of the rupees also must remain in circulation, for the ordinary transactions in India are of such small sums that no gold coin could serve the purpose. If, therefore, free conversion in gold is permitted not more than a

its obligations in India in gold, instead of in rupees."

This recommendation, read in conjunction with their suggestions about making sovereigns legal tender in India and allowing them to be coined at the Indian mints, makes it impossible to construe the last clause as a revocable permission to use gold in India. Even though the Committee of 1898 declared that rupees must remain unlimited legal tender for some years to come, mere tokens as they were, we cannot take the meaning of the Fowler Committee, reading their recommendations as a whole, to have designed the Gold Reserve Fund exclusively for supporting the exchange value of the rupee in gold. The policy, however, of the Government of India, in the years that followed, made it increasingly clear every year that there was no intention to use the Gold Standard Reserve, as it later on came to be called, for introducing gradually a gold currency in India. And the Chamberlain Commission of 1913 gave the seal of its approval by remarking.

"The experience of 1907-8 makes it clear that the Reserve is required not merely to meet the "Home Charges" of the Government of India, at a time when an adverse rate of exchange prevents the free sale of Council Drafts, but also to liquidate an unfavourable balance of trade to the extent necessary to prevent exchange from falling below specie point... On the other hand the Reserve is not required to provide for the conversion into sovereigns of rupees in circulation in India... Gold is world's money, and India like other great countries, needs gold less for

internal circulation than for the settlement of external obligation when the balance of trade is insufficient to meet them."

But here we are confronted with a radical difference of principle. Those who regard the Gold Standard Reserve as having been designed to facilitate the eventual introduction of a gold standard can never appreciate the views of those who destine it exclusively for steadying exchange. The latter assume that gold is not needed for internal currency purposes by any country, while the former see in the current circulation of gold in a country the only guarantee of a steady exchange without any need of help from the manipulations of public authorities. This is a point, which, perhaps, had best be discussed under the chapter dealing with the need for a gold currency in India.

(b) Coming next to the amount and composition of the Reserve, it is needless to postulate that the amount and composition of the fund must necessarily depend in a great measure upon the object it is meant for. But assuming that object to be what the official spokesmen have formulated it to be viz. the steadying of the exchange value of the rupee, the manipulation of the Reserve is open to criticism. As already mentioned the Reserve dates from 1900 and the following Table shows its growth and position in the succeeding years.

Table showing the amount, composition and location of the Gold Standard Reserve.

Date.	In England (in thousands sterling).				In India (in thousands sterling).			(In thousands sterling).
	Securities at Market Prices.	Cash at short notice.	Gold at Bank.	Total.	Loans and bank Credits.	Gold.	Silver.	
31st March.	£	£	£	£	£	£	£	£
1901	...	...	...	...	1,830	1,200	...	3,030
1902	3,456	...	...	3,456	...	...	...	...
1903	3,652	...	...	3,652	...	...	...	...
1904	6,041	...	...	6,041	1	...	...	1
1905	8,387	...	...	8,387	167	...	...	167
1906	12,122	...	...	12,122	152	...	...	152
1907	11,960	...	...	11,960	266	...	...	266
1908	12,978	1,131	...	14,110	301	21	4,000	4,323
1909	7,133	469	...	7,603	...	...	4,000	4,000
1910	12,695	3,010	...	15,706	...	...	10,586	10,586
1911	15,407	1,477	...	16,885	...	...	2,534	2,534
1912	16,087	1,073	...	17,161	...	...	1,934	1,934
1913	150,945	1,005	1,620	18,571	...	...	1,934	1,934
1914*	13,370	907	2,300	16,577	...	...	4,000	4,000
					3,025	6,233	...	9,258
								£
								3,030
								3,456
								3,653
								6,209
								8,539
								12,409
								16,283
								18,110
								18,190
								18,240
								18,819
								19,095
								22,715
								25,836

* Figures for October 31st.

By the time of the crisis in 1907-8 it had reached nearly £ 18 millions. It was decided about this time that a part of the profits on coinage should be used for railway construction in India, but this step proving perilous, the idea was soon afterwards abandoned. The Gold Standard Reserve, however, went on accumulating. Before the war the Reserve stood as follows:—

Sterling securities at market-value	..	£ 17,745,543
Money at short notice and gold		
with the Bank of England	..	£ 4,344,962
Silver in the Indian branch	..	£ 4,000,000
		<hr/>
		£ 26,090,000

Out of a total of over about £ 26 million more than $\frac{2}{3}$ was invested. In the event of a serious crisis the invested portion would not be available without a serious loss. Even, therefore, if we take it to be meant for steadying the exchange value of silver, this disposition of it is open to serious reflection. The idea of investing a portion of the Reserve no doubt originated in the desire to earn interest. But the loss on a forced sale during a crisis, not to speak of the great depreciation to which all securities—even the best—are liable, is often more than the whole of the interest earned during the period the money was lying idle. To take but one example, in the crisis of 1907-8 securities to the nominal value of £ 8,000,000 were sold. During the five years preceding that amount would have earned interest at 3 per cent. amounting to £ 1,200,000 in year. According to Alakh Dhari the forced sales of securities in 1907-8 resulted in a loss of Rs. 22 lakhs or over £ 150,000. Says the Decennial Report of the moral and material Progress of India for the years 1911-3 to 1911-12. "Upto 31st March 1912 there was a net profit of £ 2,105,868 on the investment; £ 2,958,138 had been received

third of the total money in circulation could ever be presented for conversion. We need not, therefore, have a bigger reserve in gold than £40 to 50 millions. On the other hand if we take the trade balance of India as a test, India has been for all the ages past and is likely to continue to be for some generations to come a country with a favourable trade balance. No reserve in gold need at all be accumulated on the score of trade alone. If there were no Home Charges to pay, India's trade even in the worst years of famine would finance itself. There may, indeed, be a temporarily adverse exchange; but, it would soon be redressed by the returning wave of prosperity. It is really the Home Charges which makes our exchange problem a source of great anxiety. Even on this basis of the Home Charges, however, the utmost that can be required from India in that way amounted before the war to £ 20,000,000 a year in round figures. If we assume that there will be no balance of trade in favour of India for two consecutive years—a most improbable assumption—we would need £40 millions to pay our Home Charges, supposing that during that period we did not borrow at all in England. The safe figure to which the Reserve should be accumulated is on two independent tests, found to be somewhere between £40,000,000 & £ 50,000,000. It should, of course, be held exclusively, or at least predominantly, in gold. The loss of interest on £ 50 million, at 4 per cent. would be £ 2 million a year: but in the interests of the stability of exchange such an outlay may well be made without hesitation; while the loss may be reduced by providing that a third or at the most a half should be invested in Indian and English securities.

(c) The last point of criticism on this question of the Gold Standard Reserve is in connection with the *location of the fund*. It has been the practice ever since the creation

of that fund to keep it in England. The Chamberlain Commission has approved of this practice by declaring, *"The most suitable place for the location of the Gold Standard Reserve is, in our opinion, undoubtedly London,"* and they support this contention by urging *"London is the clearing House of the world, India's chief customer is the United Kingdom, and London is the place where money is required both for the expenditure of the Secretary of State on India's behalf, and for payment of India's commercial obligations to this country and the world in general... If the Reserve is kept in India it would have to be shipped to London to be used. This would involve delay at a moment when immediate action is necessary..... We have no hesitation therefore in recommending that the whole of the Gold Standard Reserve should be kept in London"*. This recommendation, however, is founded on a misconception. (1) The presence of the Reserve in India would be a source of immense moral strength to the business community in India. (2) And the shipment of gold to London will not be required, if past experience through an unbroken series of generations is at all reliable, more than once in ten years. (3) Besides if the Reserve is in India it might enable our Government to meet its obligations in gold, and thereby reduce the rate of interest. (4) Lastly the Reserve in India, if any portion of it is to be invested, will be invested in rupee securities and so strengthen the credit of the Government in India. In view of all these arguments the policy of keeping the whole of the Reserve in London cannot but be unhesitatingly condemned.

to declare notes of higher denomination universal legal tender by an executive order. In pursuance of this power notes of one hundred rupees were made universal legal tender in 1911. The Act of 1910 also removed the Burman limitation on the five rupee notes. In 1911 the Government forbade the receipt of notes of higher denominations, in circles other than the circle of issue, in payment of government dues or to Railways or Post and Telegraph Offices. (5). The whole amount of the Currency notes in circulation is secured by a bullion reserve and securities of the Government of India and of the United Kingdom. Originally the Paper Currency Reserve consisted almost exclusively of silver; but the policy was inaugurated, in 1893, of issuing notes against the British sovereigns and gold at the rate of Rs. 15 per £, so that now it consists of gold as well as silver. In 1861 the total amount of the Reserve in securities was fixed at Rs. 4 crores—that being deemed the indispensable minimum of notes which in all probability would never be presented for conversion in metallic money. The growth of the note circulation twenty years later was sufficiently gratifying to permit an increase of the invested portion of the Reserve to Rs. 6 crores. The issues, however, went on still expanding, and power was, therefore, given to the Government of India, by Act IV of 1890, to raise the limit to Rs. 8 crores. This power was first utilised in December 1890 when it was raised to Rs. 7 crores, and again a year later to Rs. 8 crores. Act XXI of 1896 empowered the Government to raise again the Reserve to 10 crores, and the power was exercised in December of that year. In 1905, by Act III of that year, another 2 crores was added to the invested portion, this sum being invested by the Secretary of State in Consols and Exchequer Bonds. In 1908-9 the Exchequer Bonds were replaced by Consols. By Act VII of 1911 the limit was further raised by two crores, and the Secretary of State was allowed to invest another 2

CHAPTER IV

Paper Currency in India up to 1914..

I HISTORY.

The history of our Paper Currency proper dates from 1839-1843 when the three Presidency Banks were allowed to issue notes payable on demand. These notes, not being legal tender, could be used only in those centres of commerce where, as in the Presidency Towns, some substitute for metallic currency was required to facilitate large payments. After the Mutiny, the disordered state of the finances of the Government of India claimed and obtained the assistance of a special Finance Minister. Among the many constructive measures of our first Finance Minister, Mr. James Wilson, was an attempt to regulate and popularise the excellent substitute for metallic money which was provided by the paper notes of the Presidency Banks. Their notes, he learnt, had not made any encouraging progress, but he rightly judged that this slow progress was due to the absence of the Legal Tender quality. To make the notes legal tender would raise the new and hard problem of their convertibility, and the consequent necessity of public confidence in the issuing authority, its solvency, the provision of an ultimate reserve etc. The notes issued by these Banks were not supported by any strong reserve as they were required to keep a combined reserve of only 25 per cent. against all the outstanding demand liabilities. Considering the situation of India after the mutiny, Wilson judged it best that the note issue should be centralised and made a public monopoly, not only because of the immediate gain to the state, represented by the

saving of interest on that portion of the reserve which was invested, but also because of the immense need of insuring confidence, and thereby the popularity of the notes. No private institution, not even the most respectable Bank, could inspire that confidence which was essential for the popularity of this new form of money. It was but fair that the profits of the note issue should be taken by the State, since they would be a kind of tax levied on the general public.

Mr. Wilson and his colleagues in the Viceregal Council in India, as well as Sir Charles Wood, the Secretary of State, were in complete agreement about the necessity of making the Indian note-issue a public monopoly. But they could not bring themselves to view from the same stand-point the question of reserve. The authorities in England, with their memories of the Paper Currency controversy in England after the publication of the Bullion Commission's Report, could not conceive of any measure as sound which did not accept the principle of the Bank Act of 1844. They wanted the notes to be covered, pound for pound, by *an equivalent metallic reserve, beyond a very small sum which might be issued against securities*. Even this small portion was suffered to be issued against securities and without a metallic reserve, when it was proved that this portion represented a minimum which under no conceivable circumstances was likely to be presented for conversion. In vain was it pointed out to them that such a measure made the currency inelastic in the extreme, incapable of expanding with the needs of the community unless there was a specie to back it. In vain Wilson pleaded that the very object of a representative money—the economy of the precious metals—would be defeated by such a measure, and that the profits to the issuing authority would be unnecessarily circumscribed. Sir Charles Wood

remained adamant on this point of the metallic reserve, and Wilson was spared the mortification of carrying out a scheme of which he could not approve by the timely breakdown of his health.

On all other points there was a substantial agreement between the authorities in India and in England. The Paper Currency Act was passed in 1861, repealing all the previous legislation on the subject, and inaugurating an entirely new system. The salient point of this system were:

(1) The Currency notes were made legal tender to an unlimited amount in their respective circles of issue and were issued by the Government exclusively.

(2) They were in the form of a promise to pay on demand at the head-quarters of the circle from which they were issued.

(3) Notes of one circle were not legal tender in another circle, except for the payment of Government dues which could be paid in any circle in the notes of its own or any other circle. Railway Companies, too, might receive, in payment of their fare and traffic charges, notes of any other, and recover specie from the Government against these notes. The public treasuries, also, would in practice cash the notes of *any other circle*. as well as their own, provided they had funds to do so. There were four such circles, *viz.*, Calcutta, Bombay, Madras and Rangoon; and four subcircles *viz.*, Cawnpore, Lahore, Karachi and Calicut. By an Act of 1910, which consolidated the law on the subject of the Paper Currency, the sub-circles were abolished, and so now there are seven circles in all, *viz.*, Bombay, Calcutta, Cawnpore, Karachi, Lahore, Madras and Rangoon. This arrangement of dividing the country up into several provinces is

open to the objection that the area under which the notes are unlimited legal tender being restricted, the notes can never become very popular, nor can the economy of metallic money be very considerable. On the other hand the experiment of a public note-issue in India was new. The credit of the Government, after such a shock as that caused by the Mutiny, could not be wilfully exposed to the least possible and preventible danger. The demand for cash (rupees) varied in different parts of India at different seasons of the year. Would it then be prudent to create a system, which, by giving full facilities for cashing the notes, may make them so popular that their very popularity may be a menace to the credit of the State? Of course when once the notes were rooted deep in the confidence of the public, when they had learnt to use notes for other purposes than immediate encashment, it would be time enough to recast the system. As we shall see below this was what actually happened nearly half-a-century after the first Paper Currency Act was passed. That during this long interval the notes did not make any rapid progress in popularity does not constitute an unlimited censure on the authors of the system in 1861. (4) The notes were originally issued in the denomination of Rs. 10, 20, 100, and 1000. The small denomination of rupee in terms as low as a s. 20/-, according to then valuation of rupee in terms of the pound sterling was necessary in view of the poverty of the people of India and the smallness of their daily transactions. The five rupee note was introduced in 1871 and later on the ten thousand rupee note. The five rupee note was made universal legal tender, except in Burma, in 1903. By the consolidating Act of 1910, the issue of twenty-rupee notes was discontinued, and the ten and fifty rupee notes were made universal legal tender, that is payable in any circle whether of their origin or not, and power was given to the Government-General-in-Council

is expanding every year. The foreign sea-borne trade alone has increased from Rs. 122.59 crores in 1875-76 to Rs. 480.83 crores in 1913-14 the year before the war. And if to this we add the far more numerous transactions of exchange within the country, it is obvious that the commercial world, with its ever increasing transactions, would be sorely hampered by the lack of a medium of exchange which could be easily contracted or expanded as occasion required. Various suggestions have been made for affecting this most urgent reform. The Chamberlain Commission recommends.

“We think it eminently desirable that the use of notes in India should be encouraged by all legitimate means. With this object in view, we recommend that the Government should increase, whenever and wherever possible, the number of places at which the notes are encashable of right as well as the extra-legal facilities for encashment. We think it would be desirable to universalise at once the notes of 500 rupees. With the experience gained it may be found possible to carry universalisation still higher.”

Against this proposal the only objection that could be taken is that the Government might have to keep a large reserve available at any moment in any treasury, and that they might have to incur a heavy cost of remitting specie from one district to another frequently. With a little more experience, however, the authorities could easily make adequate provision, without keeping an unduly large reserve, against all possible emergencies of this nature. The great facilities offered to the business community by such a reform, and the consequent increase in the quantity of notes in circulation, would more than counter-balance the cost of remittance that may have to be incurred from time to time.

While, therefore, we desire a greater popularity of the currency notes and their more extensive use than is the case today,

crores in Consols. Thus the total invested Reserve of the Indian Paper Currency stood at Rs. 14 crores just before the outbreak of the war, and of these only 4 crores were invested in sterling securities. As regards the metallic Reserve, under the Gold Note Acts of 1898 and 1900, power was given to the Government of India to hold a part of the metallic Reserve in gold coin, or temporarily in silver bullion in London instead of in India. The object of these Acts was to afford some relief to the Indian money market in seasons of stress, if notes could be issued against gold tendered in England, the Secretary of State could sell the Councils freely in London. Some gold was held in London under these acts, but not as a part of permanent policy. An Act of 1905, however, formulated a permanent policy on the subject, by fully empowering the Government to hold the metallic portion of the Reserve, or any part of it, at its free discretion either in London or in India, or partly in both places, and also in gold coin or bullion, in rupees or silver bullion, provided that all coined rupees should be kept in India alone. Under the provisions of this act a Paper Currency chest was instituted in London, and a sum of £6,000,000 in gold was remitted from India to be held in that chest. A further sum of £1,015,00 was transferred to the chest from the Secretary of State's balances in 1905-6. This gold began to increase in amount after 1906 and on 31st March 1913 a year before the outbreak of the war, the total Reserve was distributed as follows:—

	In crores.
Silver in India	Rs. 16.45
Gold " "	Rs. 29.37
" " London	Rs. 9.15
Securities	Rs. 14.00

Total Rs. 68.97

ii. ORGANISATION OF PAPER CURRENCY OFFICE.

Before we go on to discuss the problem of Paper Currency in India, it would be interesting, though a point merely of detail, to note that the issue of the Currency Notes is managed by a Paper Currency Department, whose function it is to issue notes without limit from any Paper Currency Office against rupees, half-rupees and sovereigns. Notes may be issued even against gold-bullion and gold coin, which is not legal tender, from circle offices on the requisition of the Comptroller-General, who is the head of the Paper Currency Department. The notes are, supplied by the Secretary of State through the Bank of England on an indent by the Head Commissioner. He, in his turn, or the Commissioners under him, supply notes as required to all the Currency Agents in the country. Every note, except a universal one, bears upon it the name of the place from which it is issued, every note without exception has impressed upon it the signature of the Head Commissioner or of a Commissioner or Deputy Commissioner.

III. PROBLEMS OF PAPER CURRENCY.

(a) *Popularisation of Notes.*

It is now fifty-six years since the Paper Currency Act was passed and almost eighty years since this form of currency was first introduced in India. Yet during that long period the development of currency notes has been not all that could be desired. At its inception in 1862 the total gross circulation

of notes was Rs. 369 lakhs. After 30 years it was 2710 lakhs, and thereafter the growth has been as follows:—

AVERAGE CIRCULATION IN CRORES OF RUPEES.

YEAR.	GROSS.	NET.	ACTIVE.
1892-93	27.10	23.33	19.53
1893-4	28.29	20.83	17.85
1899-1900	27.96	23.67	21.27
1900-01	28.88	24.73	22.05
1902-03	33.74	27.35	23.49
1904-05	39.20	32.76	28.11
1906-07	45.14	39.49	33.93
1908-09	44.52	39.02	33.10
1909-10	49.66	45.35	37.21
1910-11	54.35	46.48	38.75
1911-12	57.37	49.49	41.89
1912-13	65.62	54.92	45.39
1913-14	65.55	55.62	46.63
1914-15	64.04	59.28	45.43

On 31st March 1914 the gross* circulation i.e. the total number of notes issued was valued at 66 crores. The need for developing the note issue is felt in India because her currency system is so very inelastic. According to the provisions of the law no new notes can be issued unless an equivalent quantity of specie is presented in exchange. Though the amount of investments held in the Paper Currency Reserve was considerably raised during the war, as we shall describe more fully later on, and though the gross circulation was increased to 175 crores in round figures, the paper portion of the total currency is only about $2\frac{2}{5}$ of the whole. Besides the Indian business public is not yet so widely accustomed to the cheque system, which has completely counteracted the similar inelasticity of the English currency system. Nor can we believe that the Indian public can or will adopt the cheque as a means of payment on a much wider scale in the near future. Meanwhile the trade of India

* The net circulation, it may be remarked, is the total number of notes in circulation less those held in Government Treasuries, while active circulation is the net circulation less the notes held by the Presidency Banks.

serve, the introduction of the gold element was originally intended to afford relief to the currency situation in India, but the gold portion has subsequently been used for entirely different purposes. Says the Chamberlain Commission.

“The total amount of gold in the Paper Currency Reserve naturally fluctuates inversely with the total stock of rupees in the same reserve. When the rupees threaten to fall short the gold accumulates, and it is by using the excess gold that the cost of silver for fresh coinage is eventually met. As already explained, the authorities endeavour, through the sale of Council Drafts in London, to secure that the gold should not accumulate in India to such an extent as to involve shipment back to London. In practice the amount of gold accumulated in India has, except when depleted by the crisis of 1907-8, always tended to exceed the maximum demand for gold from the Reserve in India. The policy pursued in quite recent years has been to locate from about five to seven millions sterling in London, and only to secure the presence in London of further gold belonging to this reserve when the money is wanted to purchase silver. This has been criticised by some of the witnesses who appeared before us. It seems to us, however, to be at present justified by two considerations. In the *first* place it is reasonable that for the purchase of silver some part of the Paper Currency Reserve gold should be kept in London, as the principal source of supply: for this purpose no great amount is required. But, *second*, there is the maintenance of the exchange to be considered. The facts are that the gold in reserve in India has been much in excess of the demand, that the Gold Standard Reserve has not in itself been sufficient to secure beyond question the stability of exchange, and that gold in London is more directly and indubitably effective for this purpose than gold in India. In these circumstances, so long as the Gold Standard Reserve is

we see no means of achieving our object, in the present circumstances of the country, except by universalising gradually notes of Rs. 500, 1000 and even 10000, and offering facilities for the conversion of rupees into notes and vice versa. The development of the cheque system is an alternative impracticable so long as there is only one literate person in a hundred in this country. The issue of one or two rupee-notes, is another alternative, and of a temporary utility, which must not be adopted except in the last instance when it has become absolutely inevitable. The need for elasticity in our system is indispensable; but that, perhaps, would be better secured by recasting the provisions regarding the reserve than by any such measures of momentary value. We shall, accordingly, turn our attention next to the discussion of the Paper Currency Reserve.

95) (b) *Currency Reserve.*

We have already traced the history of this Reserve upto the outbreak of the war, and shown that it consists of two main branches: Metallic Reserve and Securities, each of which can be further subdivided into gold and silver portions of the metallic Reserve. The Reserve was distributed as follows:—

	In lakhs of Rupees.
Rupees	20.53
Gold coin and bullion in London ..	9.15
.. " " " " India ..	22.44
Securities at cost in London ..	4.00
.. " in India ..	10.00
Total ..	66.12.

The composition and the location of the Reserve has aroused much criticism in the past, nor is there any chance of that criticism being set at rest by the recommendations of the Chamberlain Commission on the subject. Taking first the metallic re-

notes of higher denomination in all circles. But a much better remedy would be to recast altogether the principles governing our note issue. On this point the Chamberlain Commission recommended:

“The fiduciary portion of Paper Currency Reserve should be increased at once to 20 crores. But instead of merely fixing this figure as a maximum, we propose that the maximum of the fiduciary portion should be fixed at the amount of the notes held by the Government in the Reserve Treasuries plus one-third of the net circulation for the time being. Under this proposal the invested portion of the Reserve will be at once increased by six crores. We recommend that this result should be effected by a transfer (at market value) of sterling securities to that amount from the Gold Standard Reserve in exchange for 6 crores of gold now in the Paper Currency Reserve in India.” “So long as the gross circulation exceeds 60 crores,” they continue, “it will be within the power of the authorities to increase the investments of the Reserve and we propose that Government should have power not only to make such further permanent investments as they think fit, but also to make temporary investments or to grant loans either in India or in London.”

These recommendations of the Commission are on the whole praiseworthy, and particularly the suggestion about making temporary loans in India. We cannot, however, associate ourselves with the idea of investing a part of these securities in London; nor can we endorse the recommendation about short term loans in England. It is, moreover, a great improvement on the present methods, to suggest a combination of the two principles of a fixed maximum reserve in securities, and that of a proportional Reserve. By this means we may legitimately expect an increase in the revenues

insufficient by itself to secure the stability of exchange, we think the policy is justified."

This apology is entirely beside the point. The purpose of the metallic portion of the Paper Currency Reserve has always been and must always be the guarantee of converting on demand the currency notes into legal tender money. If in demanding conversion of the notes people in India prefer rupees to gold coin, that is no reason to consider gold in India as useless. The intrinsic value of the rupee, apart from the abnormally high price of silver; is about ten annas; and 16 crores of coined rupees in the Paper Currency Reserve are in reality worth only 10 crores. The introduction of a portion of gold in that Reserve is, therefore, required for giving additional strength to that Reserve. The transfer of a large part of that gold to London, with the object of buying silver for fresh coinage, does not appear justifiable; for the coinage requirements of the Government of India cannot fluctuate so much they should not be permitted to be so uncertain-as to demand an extra reserve of about 10 crores in England. The suspicion that this gold is kept in London with a view to assist the London money market; that it is a conspiracy to deprive India of its share of the world's gold to which the officers of the Government of India have wilfully lent themselves is likely to gain wide circulation. Moreover the second purpose that this gold is said by the Commission to serve in India is entirely foreign to the original intention of this reserve. If the exchange value of the rupee has to be artificially maintained, the task of that maintenance should fall on the Gold Standard Reserve and not, under any circumstances, on the Paper Currency Reserve. And if the Gold Standard Reserve is found inadequate to meet all possible demands upon it in the time of a crisis, it is because of the short-

sighted policy of gaining interest. A substantial portion of that Reserve is invested in securities; it is because even in that Reserve no adequate gold bullion is allowed to flow to India under the normal course of trade. But whether the Gold Standard Reserve is adequate or not, it is clear beyond the possibility of a doubt, that the Paper Currency Reserve cannot be used for steadying exchange without being false to the purpose of that Reserve, and without placing the Indian currency system in a weak and suspicious condition.

We have not yet mentioned in this connection another purpose which the gold in the Paper Currency Reserve may be made to serve without any violence to the nature and purpose of such a Reserve. The accumulating gold coins may well be used for facilitating the introduction of a gold currency in India. If the rupees were made by law limited legal tender, and if the notes were expressed in terms of gold whether the British sovereigns or any other coin specially minted for India, the advent of a gold Currency as well a gold standard will be hastened, and that without disturbing in any way the monetary system. The accumulated gold coins or bullion may be first used for the purpose of redeeming the notes in gold when presented, and there is every reason to believe that the people, being used to notes, would accept them all the more willingly when they are made convertible in gold than when they are simply convertible in silver. If the note-issue increases, or even if it remains what it was in normal times, say 70 crores of rupees, rupees even with a limited legal tender, would be required to the extent of Rs. 100 crores roughly. The total new gold coinage therefore, taking the currency requirements of India at Rs. 200 crores would not exceed Rs. 30 crores or £ 20,000,000 at most. But the total gold held in the currency Reserve in India and London amounted in 1913 to Rs.

curities were bringing only $2\frac{1}{2}$ per cent; and, besides, they were steadily depreciating since 1909. The Indian securities on the other hand brought in $3\frac{1}{2}$ per cent, and, in spite of all the crises and famines were fairly steady before the war. And the other contention that the holding of sterling securities is required to strengthen exchange is equally absurd and ill-founded. The object of the Paper Currency Reserve is to guarantee the immediate convertibility of notes on demand. It has, and can have, nothing to do with the maintenance of the Exchange. To confound these two distinct functions of two distinct Reserves, in the hope of strengthening exchange, is to put a heavy strain on each which may prove too much even for both combined.

Another point in the treatment of the invested Reserve, to which attention might be more profitably directed by public criticism, is in connection with the amount to be invested and its proportion to the total circulation. In 1913, as we have seen above, when the gross circulation amounted to 69 crores, the invested portion of the Reserve was only 14 crores, or slightly over 20 per cent. of the total issue. In 1917 when the total circulation was over 83.40 crores the invested portion of the Reserve was 42.80 crores or over 50 per cent. In 1913 the total active circulation was 45.39 crores or that the invested Reserve was about 30 per cent. In 1917 the total active circulation was 45.39 crores so that the invested Reserve was about 90 per cent. In 1917 the net circulation was 80.5 crores and so the invested portion was 55 per cent. and its proportion to the active circulation must be still greater. This vast discrepancy, though caused by the war, would not have occurred if the note-issue were based on more scientific principles. We have shown above that the want of elasticity in our note-circulation can be only remedied by an immediate universalisation of the Rs. 500 notes, and greater facilities for encashment as of right to

to demand a change in the Standard in order to avoid obvious injustice which would otherwise be inevitable, the State would be perfectly justified in assuming that its protection is invoked only in the extreme case of unquestioned injustice. In modern times, thanks to the very wide development of credit organisation, it is more than likely that the majority of commercial transactions are time contracts. The traders may reasonably be presumed to know their risks, including the variation in the general level of prices when they enter into such contracts. The short-lived change, even if it should be creating some injustice, cannot justify a radical alteration of the Standard to grant justice to such instances. We must take them to be the unavoidable incidents of the imperfect organisation with which all human institutions must put up.

If we leave out these temporary changes we find the only justification for tampering with the Standard is such a change in the general exchange ratio of other things to the Standard material as to bring about a fairer distribution of the risks of exchange by a mere readjustment of the value of the Standard. A fuller discussion of this great social problem would lead us into a digression which must be avoided. But we must observe that popular demands for a change in the Standard are often the clearest evidence of the bankruptcy of ideas on the part of those proposing the change, and a misapprehension of their duties on the part of those accepting it, not to mention the still stronger objection that the change is not always productive of the goal in view, or even suited to the particular evil sought to be remedied. Thus at the time of the closure of the Indian Mints to the free coinage of Silver in 1893, it was generally thought that silver had depreciated in value, and therefore a re-adjustment of its value in terms of gold, if necessary by artificial means like

of India in the shape of the interest for these investments, permanent or temporary, without, however, endangering in the least the convertibility of notes. Moreover, as the currency notes gain in popularity, Government can, by this method, increase either the permanent or the temporary, or both portions of the invested Reserve without a special act. We need not apprehend any abuse of such a latitude of powers to the Executive since the maximum that can be invested at any moment will be automatically determined by the operation of this principle. For greater prudence, sake it might even be suggested that the temporary investments should bear a certain proportion to the permanent reserve, say, 1:2.

CHAPTER. V.

The Indian Currency System during the War and After

Before the outbreak of the great European War the Indian Currency system was based on the idea of a Gold Standard System—in theory only. The gold was not to, and did not in fact, circulate freely in ordinary currency. It was only made available if required to settle an unfavourable balance of trade against India. As India herself does not produce gold in any great quantities, this demand whenever it occurred, was met out of the accumulated and reserved profits of the coinage of rupees. These last were the *de facto* standard coins of India. And as their intrinsic value, calculated by the metal contents was, all through the period before the War, about 40 per cent less than its legal value, the government managed to reap very considerable profits every year from the forced maintenance of this fraudulent standard of value.

It is as well to note at the very outset that for an artificial standard like this to be maintained in the scientific simplicity and integrity that were *ex post facto* claimed as advantages of the system by its academic admirers or practical beneficiaries, it is imperative that the moment an adverse balance is felt the gold should be made immediately available. As the managing authority and discretion rested with a hide-bound routine-led government department, out of touch with the eddies and currents of the mercantile world, this primary requirement was never fulfilled. Another requirement, less obvious perhaps but not less essential, was some kind of a rule, system, a measure for the coinage of the standard coins—rupees—in forced circulation at a fraudulent price; so that they might be prevented from bringing about their own undoing. But the rupees were

coined, all through the period before the War and even during the War, without rhyme or reason. The suggestion, perhaps, would not be quite accurate that the coinage of rupees was dictated exclusively by considerations of the resultant profit. As the profit, though enormous, had to be accumulated and reserved, the temptation of an income from this source could not in all probability have been a deciding factor, though the fact must be noted that the Mackay Committee on Indian Railways had suggested in 1907 the diversion of a part of this profit as capital for railway construction in India. That this expedient was never adopted does not make the danger of such accumulated reserves with indefinite goals the less to the public from whom they have been acquired.

In practice the balance of Trade was never against India. And, though, with the Home Charges thrown in, the Balance of Accounts, which is entirely different from the Balance of Trade, occasionally went against India, the obligation to provide gold had no practical significance of any serious dimensions. The domestic demand for gold was considered reprehensible as ministering to the most wasteful traditions of eastern hoarding. Hence, after one very half-hearted effort, no endeavour was made to dilute the Indian local circulation with gold. In a period of crisis, when the trade balance had fallen off, the Government, after a varying interval, announced their intention to sell Reverse Councils, i.e. mandates on the Secretary of State to pay gold in London against rupees received in India. The Secretary of State was supposed to pay out of the accumulated and reserved profits of the silver coinage in the Gold Standard

Reserve. If any portion of that fund was invested, he had to sell the securities at any price he could get to realise the gold and meet the temporary demand. In normal times, that is, all through the period between 1899 and 1914, with the exception of a few months in 1907-8-there was no need to resort to this Reserve, which consequently went on accumulating and being invested; and, per contra, rupees and notes went on being added to the circulation in India, without a plan or system, without a reference to or consideration of the possible effects of currency dilution on the level of prices. The note circulation and the fiduciary reserve in support thereof were also gingerly, cautiously, conservatively added to. The combined effects of the operation are mildly set out in Mr. Dutta's Report on the Rise of Prices in India:—

“In short the growth of the volume of currency (including notes) has not been incommensurate with the growth of business and other demands for currency; and, in the absence of any indications of a redundancy of rupees for any length of time, it is clear that the rupee coinage of the government of India could not have exercised any important influence on the level of prices.

“The same, however, cannot be said of credit. It has been already explained that credit has developed in this country; although it is not possible to gauge the extent of this development with any very great accuracy, the growth in the capital returns would be some sort of a rough guide. The Table below shows that this growth has been

in 1911, 186 per cent., a proportion much larger than the growth of business, and has as already explained contributed to a certain extent to the rise in prices in India." (Parts 236 and 237 of the Report on the Rise of Prices in India.)

And the same authority estimates the rise as follows:—

Rupee Prices.				Gold Prices.		
Food grains cereals	100	139	132	100	144	137
" " Pulses	100	141	129	100	151	124
Sugar	100	104	111	100	105	116
Tea and Coffee	100	68	82	100	71	86
Other Foodstuffs	100	122	113	100	127	138
Oilseeds oils & oilcake	100	132	149	100	137	155
Textiles: Jute	100	134	141	100	139	147
" Cotton	100	119	141	100	124	146
" Others	100	95	96	100	99	100
Hides and Skins	100	155	165	100	160	172
Metals	100	121	122	100	127	127
Raw and manufactured						
Articles	100	119	128	100	124	133
Building Materials	100	142	146	100	138	151
General	100	131	136	100	135	141

The base period in the first column is the quinquennium 1890-94, the second column is the quinquennium 1905-09, and the third is the triennium 1910-12, in silver and the same in gold.

The whole system thus rested upon the convergence of two streams, the one from India to Britain, and consisting principally of the Home Charges and allied payments, including the purchase price of silver bought for coinage in India; and the other to India from foreign countries through Britain, and consisting mainly of the balance of trade in favour of India, including also the proceeds of loans raised for the Government of India outside India. The two did not necessarily equalise or coalesce.

But the balance was, under the device of unlimited sale of Council Bills, usually made to accumulate in England. The year 1913-14 was very nigh a record year of prosperity, and the estimates of the Government of India for 1914-15 were prepared on the assumption that the prosperity would continue unbroken. They had provided for the drawings by the Secretary of State to about £ 20 million sterling. But on the outbreak of the War, and owing particularly to the predatory activities of the German cruiser Emden, the situation soon began to get out of hand. There was every sign of a panic rapidly developing. Foreign trade was disorganised; the monied interest began to reconsider its commitments; and the foreign capital invested in India began to be withdrawn. The terror-stricken people of India also began to demand gold for local consumption. The Government of India had little or no gold to appease this demand in India; but they made a bold show to offer freely gold to anybody who asked for it.* This liberal policy was fraught with danger. Government subsequently confined their gold issues only to those people who demanded gold in lots of not less than £10,000 at a time; and later on forbade it altogether, except for purposes of export. In the latter case they allowed gold to be issued in London by means of the Reverse Councils, which, following the the then recent report of the Chamberlain Commission, they announced would be sold at $1\frac{1}{3} \frac{29}{32}$ to the extent of one million sterling every week until further notice. Some days after, they also offered to sell telegraphic transfers at $1\frac{1}{3} \frac{13}{16}$ per rupee.

These facilities were freely availed of, and reverse drafts, to the extent of £ 8.7 million, were sold during the remainder of the financial year 1914-15. The proceeds of these in rupees were credited in India to the Gold Standard Reserve and debit-

* According to the Babington Smith Committee £1,800,000 in gold was thus issued to the public in India between the last days of July, and the 5th of August 1914 when such issues were stopped.

ed in England to the same fund by the Secretary of State for India. The latter authority had, in the four months before the War, been able to sell for his own needs drafts on India in the usual manner to the extent of £7.7 million, and had to meet the drafts from India during the remaining 8 months of War to the extent of £8.7 million. This unusual situation operated in the end as a blessing in disguise for the Government of India, who, under the War scare, had to face a very heavy demand for withdrawal by the small depositor in the Post Office Savings Banks, the most easily vulnerable point in the financial arrangements of the Government of India. They, therefore, used the rupees received against the Reverse Bills to pay off the panic-stricken post office Saving Bank Depositor, and considered it a temporary loan of £7 million from the Gold Standard Reserve. On the other hand the Secretary of State met his needs from (a) 8.7 million from the Home Government on account of the expenses incurred by the Government of India on behalf of the British War Office; (b) by borrowing £10.9 million instead of the £5.9 million as estimated and provided for in the Budget of the Government of India; and (c) by transferring £ 1 million from the Paper Currency Reserve to the Cash Balances in England.

The gravest difficulty was thus overcome without any very perceptible strain upon the resources of the Government of India, without even a sufficient demonstration of the fundamental weakness of the new arrangement. The Government were not in a position entirely to carry out the recommendations of the Chamberlain Commission, which, therefore, was shelved during the currency of the War. The people were not in a mood to be too critical for fear of incurring much greater disaster; and so they overlooked the refusal of the Government of India to supply gold for domestic purposes, though they were morally bound to do so in exchange for rupees or notes.

The dislocation of trade righted itself, as war conditions became permanent; and the normal activities began once more to be restored. In 1915-16 the Budget of the Government of India provided for Home Drawings to the extent of only £7.1 million in the hope that the balance of the Home Charges would be recovered from the War Office, on whose account the Government of India was incurring an almost unlimited expenditure. As it eventually turned out, these War Office credits more than wiped out the entire sum of the Home Charges from India. On the other hand trade was supposed not to recover all at once; and some allowance was made for a possible sale of reverse bills, which totalled for that year, 4.9 million sterling. Exchange, however, revived from September 1915 owing to a brisk trade developing, thanks to the demands for Indian produce by all the belligerents. Thereafter the situation so entirely altered that the difficulties of the Government of India were not as to how to allay distrust and provide gold, whether for export or for domestic consumption; but rather as to how to provide sufficient rupees for an ever increasing trade demand. Even where the trade of India was not reaching the pre-war figure, quantitatively speaking, the rapid and considerable rise in prices made up for the defect in quantity as well as for the shortage in freight. At the same time the normal imports into India of Railway plant, machinery and manufactured goods suffered owing to the diversion in the belligerent countries of all their productive plant to meet the war requirements for munitions, not to mention the complication caused by the submarine danger in the world trade relations. In 1916 the Secretary of State sold Councils to the extent of £20.4 million or over 30 crores of rupees, which was in addition to the expenses on behalf of the British Government, £15.6 million-which our government had to finance, and another million to finance the wheat purchase on behalf of the Britannic Government. This meant

a total rupee demand upon the Indian Treasuries of something like 58½ crores. As it was impossible to obtain silver in such quantities, the Indian Government adopted the easier alternative of adding to their note issue, by taking powers to add to the invested portion of the Paper Currency Reserve in England. This brought about 12½ crores of rupees into the treasuries of the Government of India, and the reverse operation was performed by the Secretary of State by transferring an equivalent quantity of sovereigns from the Cash Balances to the Paper Currency Reserve in England, and investing the latter sum in the British Treasury Bills.

Another sum of £7½ million was transferred from the Gold Standard Reserve to the Cash Balances in India thus adding 11½ crores to the rupee stocks in India, and the reverse operation was carried out by the Secretary of State by transferring an equal amount from his Cash Balances to the Gold Standard Reserve. The rest was made up by a heavy coinage of silver.

It was in the latter part of the year 1916 that the currency difficulties of the Government of India began to assume serious proportions, and in a form not expected by the Government of India or any of the Commissions that had till then inquired into the conditions of that system. While trade began to flourish, thanks chiefly to the boom in prices, the converse stream of the Home Charges had practically dried up. For the war period the Government of India continued to be a heavy creditor of the British Government. The

following table represents the genuine Indian demand for Currency of some sort.

Imports and Exports of Merchandise on Private Account

Year.	Exports.	Imports.	Net Exports.	
1914-15	£ 121·061	£ 91·952	£ 29·108	(Million sterling.)
1915-16	„ 131·586	„ 87·560	„ 44·026	
1916-17	„ 160·591	„ 99·748	„ 60·843	
1917-18	„ 161·700	„ 100·280	„ 61·420	
1918-19	„ 169·2 0	„ 112·6 ⁰⁰	„ 56·540	
1919-20	„ 217·860	„ 136·926	„ 81·944	
1920-21	„ 170·920	„ 221·340	„ 52·420 ⁰	(Balance against India.)

In the five years of the War, there was a merely trade balance in favour of India to the extent of £252 million, or 378 crores of rupees. To this must be added the amount of the recoverable expenditure the Government of India incurred on behalf of the British Government in the various side-shows of the great War, which, according to the Babington-Smith Commission of 1920, amounted to £240 million or 360 crores of rupees. Another 20 crores was spent by the Government of India for the various colonies as well as for financing the purchasers of Indian produce in America. The total amounted to 758 crores of rupees. Against this must be set off the Home Charges, which, at an average of 40 crores a year, would, for the seven years here considered, amount to 280 crores. We must also set off the adverse balance of 1920-21, nearly 80 crores against the favourable balance of 1919-20 of Rs. 121 crores, which leaves a favourable margin of 41 crores. Of the total favourable balance of 758, 300 on account of the Home Charges, *plus* 41 crores on account of the balance of advantage after two years trade, makes a net

total of 499 or in round figures 500 crores in favour of India. The following table shows how this balance was settled:—

Year.	Council Bills paid in India.	Gold coin and bullion.	Silver coin and bullion.	Government Securities.
1915-16.	- 2.27	8.45	10.01	.35
1915-16	2.71	4.90	5.58	.90
1916-17	47.07	4.20	- 2.1	.52
1917-18	50.72	21.46	1.46	.83
1918-19	23.83	00.02	0.06	- .70
1919-20	18.23	10.97	- 0.15	.134
1920-21	- 28.55	- 8.88	6.32	.56
Total ...	132.74	41.12	21.12	3.20

We have received 66.4 crores worth of gold coin and bullion, silver coin and bullion and securities, and paid 132 crores odd of Council Bills net. This would reduce the balance in favour of India to the extent of two hundred crores in round figures.*

* This calculation is defective, as it takes no account of the Borrowings on account of India in Europe, and because we have already allowed for the Home Charges en masses, while the inclusion of the Councils paid in India will at least partially be counting the same thing twice over. The loans must be taken as though they were exports for the time being, and would thus swell still further the balance in favour of India. Altogether, during this septennium even allowing for the adverse balance of the last year under record, and deducting the Home Charges, the amount due to India must be very considerable, not less than three hundred crores. Deducting still further the gift of £100 million we made during the War to England, there ought to be still a favourable claim to the extent of 150 crores, which we may take as being included in the improvements in our reserves, metallic as well as fiduciary, in the Paper Currency and the Gold Standard Reserve. The depletion of these Reserves by the forced sales of British Securities to carry into effect an impossible currency policy, and the consequent frittering away of the favourable Indian claim, will be noticed more fully later on.

Whereas in the five years just preceding the outbreak of the European War, India had received for the satisfaction of the balance of Accounts due to her £96.212 million worth of gold coin and bullion and £24.030 million worth of silver coin and bullion, making a total treasure import into India of £120.242 million over 180 crores of rupees, in the quinquennium of the War she received under 36 million sterling, of which £26 million was gold. And this against a balance in her favour several times greater. The Government of India, ignoring the staring evidence of figures, which clearly showed that India was not averse to accept gold in satisfaction of her dues, considered this difficulty as chiefly due to their inability to offer to the millions of Indian producers the silver they wanted. The Committee appointed at the close of the War to reconsider the Indian Currency system, while admitting that the stringency in the Indian system was accountable, in part at least, by the inability of Britain to export gold (see para 14 of the majority Report), considered that the very dearth of gold added to the intensity of the demand for silver. The following table of the total world production of gold and silver, however, would be illuminating in this regard. Moulton, in his work on the "*PRINCIPLES OF MONEY AND BANKING*," quotes from the Annual Report of the Director of the U.S.A. Mint, 1914, p. 268, a table, according to which from the discovery of America to 1912, gold to the extent of 714,747,822 ounces and Silver to

the extent of 11,083,136,909 ounces have been added to the stock of the precious metals in the world. Of These:—

Annual average for the period.	Gold Fine oz.	Silver Fine oz.
1801-1810	571,563	28,746,922
1811-1820	367,957	17,385,755
1821-1830	457,044	14,807,004
1831-1840	652,291	19,175,867
1841-1850	1,760,502	25,095,428
1851-1860	6,410,324	28,488,597
1861-1870	6,485,262	29,095,428
1871-1880	5,949,582	35,401,972
1881-1890	6,270,086	43,051,583
1891-1900	5,591,014	63,317,014
1901-1910	5,543,110	78,775,602
1911	4,94,755	92,000,944
1912	5,461,282	108,911,431
1913	7,882,565	157,581,331
1914	12,446,939	165,93,304
1915	13,606,730	161,995,408
1916	19,471,080	165,054,497
1917	19,977,260	184,206,981
1918	21,422,244	203,131,401
1919	21,965,111	212,149,023
1920	22,022,180	221,715,673
1921	22,348,313	226,192,923
1922	22,549,335	202,178,314
1923	** 22,255,156	*** 223,907,843
1924	" 21,245,722	" 160,626,019
1925	" 22,680,238	" 178,850,500
1926	" 21,492,411	" 161,177,900
1927	" 20,294,617	" 168,258,600
1928	" 18,545,430	" 197,531,637
1929	" 17,669,326	" 174,517,414
1930	" 16,205,029	" 168,230,612
1931	" 15,898,500	" 151,500,000

The figures upto 1912 are taken from Moulton (op. cit. p. 74) and thereafter from the financial Review, January 14, 1922. The last two years' figures are estimates. The gold figures are conversions from the coin value @ 20.67 dollars per fine oz. from 1913 to 1919.

The production of the metals shows a decline in each case of nearly 35 per cent. in the case of silver as compared to the high-water mark, and about 30 per cent. in the case of gold as compared to the high water-mark. There are explanations, of course, in each case, as to the decline. In the case of gold the alleged reason makes the increased prices, and the consequent unprofitability of working mines on the margin, responsible for the decline, and suggests a permanent increase in the value of gold as a remedy to restore the pre-war level of gold production. In the case of silver the unstable political conditions, in Mexico particularly, are held up as the effective explanation of the decline. Whether these explanations meet the case or not, the fact remains that for the currency reformer either of the two precious metals show an amount of instability which goes a long way to set-off the old recommendation in their favour. The old argument, used to be that the actual stock in the world of gold and silver is so great in their annual increment by fresh production, that the new addition will not materially affect their value in terms of the general price-level. The increase in production during the last two generations has been considerable, so that the new addition could not fail to affect the general price level. The new coinage in the case of silver has been much in excess of the addition to the world stock of that metal by fresh production. According to the Financial Review of January, 14, 1922, the new silver coinage in the last seven years, accounted for 1,540,711,218 fine ounces, whereas, the total production during the same period was only 1,062,913,562 fine ounces. The balance must have been derived from the melting down and recoinage of old silver coins, principally from European countries into the Eastern consumers of silver like China or India. This country, it may be noted in passing, has used according to the authority already quoted, more than 600

million ounces, in seven years, being by far and away the biggest consumer of silver in the world, with China coming not a bad second with a total of 450 million ounces in coinage.*

The Indian silver coinage jumps from about 6 million oz. in 1915 to 152½ million oz. by sharp and rapid progression in 1919. The total world coinage is given in the following figures compiled from the same authority:—

WORLD COINAGE OF SILVER IN FINE OZ.

1911	117,237,838	1916	292,148,550
1912	161,763,415	1917	286,592,805
1913	158,558,652	1918	222,208,135
1914	.....	1919	298,300,518
1915	225,116,911	1920	216,340,290

In 1915 India absorbed less than 2½ per cent of the world coinage of silver. In 1919 she used nearly 55 per cent.

The consumption of gold for coinage purposes is on the other, hand though considerable, steadily declining as shown by the following figures:—

Year.	Coinage value	Year	Coinage value (in dollars)
1907	411,803,911	1918	90,662,702
1913	838,773,474	1919	90,533,484
1916	106,499,095	1920	42,132,057

* The following table gives details by countries of the silver coinage in the last 6 years. The figures are taken from the Reports for the Director of U. S. A. Mint as quoted by the Financial Review of January, 14, 1922. The figures are in ounces.

Year.	U. S. A.	Grt. Britain.	India.	China.	France.
1915	2,976,024	25,951,612	5,921,239	110,294,435	11,587,533
1916	6,424,149	28,180,084	75,562,776	79,766,842	20,708,938
1917	21,276,122	13,752,993	95,829,310	37,806,567	11,604,359
1918	18,426,552	.....	148,013,322	.....	12,403,927
1919	8,560,716	11,155,439	152,241,950	79,944,849	10,306,262
1920	19,380,232	89,867,671	37,313,858	42,050,347	3,973,555

Of the two metals, then, gold seems to be less liable to fluctuations in value than silver. Apart altogether from the unsuitability of silver for use in the settlement of our vast modern international payments, and the consequent necessity to keep gold as the one medium of international account, the consideration of relative stability in the general price-level would alone dispose us in favour of adopting the gold standard, unadulterated with any pseudo-scientific complications. Had the government of India handled the currency organisation of this country in the real national economic interests of India, they would have long ago perceived the imprudence of maintaining a forced circulation as standard, with all its infinite possibilities for conscious or unconscious fraud upon the people.

The Government of India had, thus, during the War and for two years after, to face an entirely new situation. In spite of heavy, almost lavish investments in the English War securities by the Government of India, estimated by Mr. Dalal in his Minute of dissent to the Babington-Smith Committee Report at £93 million at the the then rate of exchange for Rs. 83.5 crores, the balance in favour of India could not quite be liquidated during the halcyon days of faked prosperity.* The gold, which

* Their efforts to reduce the export trade of India, though backed by the bankers very extensively, failed to stem the tide of rising prices under war necessities; and the various measures of control, whether by license or monopoly, only ended in depriving the people of India of a legitimate profit. Incidentally the war measures of trade control have engendered a degree of corruption which the hush-hush policy of interested factors prevents even now being fully realised.

in years immediately preceding the War, was becoming more and more acceptable to the people of India for settling the trade balance due to her, was, under War conditions and the gold greed that followed the War, impossible to obtain. Belligerents as well as neutrals guarded and added to their gold reserves with almost uncanny jealousy. The subjoined table, compiled from the Report of the Controller of the Currency in India for 1920-21 shows the import of the precious metals in India. The Table on the whole shows a total net import of gold aggregating Rs. 285.79 crores in value in 21 years, and silver totalling 330.62 crores of rupees in value in the same period. The following observation of the controller is worth noting as a kind of *dementi* to the official champions of the Gold Exchange Standard for India, on the ground of the undesirability of encouraging India to use and hoard metallic currency excessively.

“The total value of gold imported on private and government account, during 1920-21 was Rs. 23½ crores. This is less than half the amount imported during the preceding year, and has been exceeded on seven occasions since 1900. On the other hand, the exports of gold, which amounted to Rs. 21½ crores were far in excess of any previous years. In view of the charge commonly made that “India is a sink of the precious metals” her ability to reexport gold is not without significance.” (para 8)

Total value of imports and exports of gold, coin and bullion in each official year from 1900-01 to 1920-21.

Year.	Imports of gold.			Exports of gold.			Net gold Import.
	Bullion	Sovereigns and British Coins.	Total.	Bullion.	Sovereigns and British Coins.	Total.	
1900-1901	Rs. 5,16,34,476	Rs. 3,73,45,721	Rs. 11,89,80,197	Rs. 10,06,02,139	Rs. 99,56,707	Rs. 11,05,58,846	Rs. 84,21,351
1901-1902	3,03,15,375	27,59,971	8,30,75,346	3,72,74,700	2,54,24,240	6,36,98,940	1,93,76,406
1902-1903	4,47,36,163	8,71,87,514	13,19,23,677	3,28,90,481	1,14,87,530	7,43,78,018	8,75,45,659
1903-1904	7,16,35,211	12,08,43,483	20,14,78,694	3,67,95,858	6,53,26,239	10,21,62,097	9,93,16,597
1904-1905	8,77,70,325	13,03,49,416	21,81,19,781	3,52,95,929	8,57,64,993	12,10,60,922	9,70,58,559
1905-1906	8,76,72,452	5,99,17,270	14,75,89,722	3,63,17,742	10,65,92,094	14,29,09,836	46,79,886
1906-1907	10,49,20,025	8,04,13,754	18,53,33,819	3,06,23,172	61,50,245	3,67,73,424	14,85,60,395
1907-1908	11,08,38,907	9,62,87,500	20,75,26,407	3,36,70,880	1,78,247	3,38,49,127	17,36,77,280
1908-1909	6,78,55,075	1,61,87,235	8,40,42,310	3,36,74,937	68,12,716	4,04,87,653	4,35,54,657
1909-1910	11,16,95,761	13,86,14,457	25,03,10,218	3,30,98,212	4,18,898	3,35,17,110	21,67,93,105
1910-1911	15,08,20,375	12,81,04,770	27,89,25,145	3,34,67,880	56,70,720	3,91,38,600	23,97,86,545

Note.—In all years prior to 1920-21 imports and exports of sovereign whether on private or Government account and gold bullion imported or exported on Government account have been valued at the rate of Rs. 15 per £1 or 7,53344 grains of fine gold per rupee, while private imports and exports of bullion have been entered at the market rate.

Total value of imports and exports of gold coin and bullion in each official year from 1900-01 to 1930-31

Year.	Imports of Gold.			Exports of Gold.			Net Gold Import.
	Bullion.	Sovereigns and British Coins	Total.	Bullion.	Sovereigns and British Coins.	Total.	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1911-1912	27,51,33,990	27,51,33,990	41,49,36,060	3,56,30,100	17,08,200	3,73,38,300	37,75,97,760
1912-1913	26,69,28,075	26,69,28,075	41,29,07,800	3,45,06,225	3,83,89,500	7,28,95,725	34,00,12,125
1913-1914	12,75,19,605	12,75,19,605	28,22,64,075	3,49,00,305	1,41,25,770	4,20,26,075	28,32,38,000
1914-1915	2,35,10,535	2,35,10,535	10,70,38,230	1,51,11,405	1,51,22,070	3,05,64,076	7,64,74,155
1915-1916	68,27,850	68,27,850	5,28,16,815	3,05,69,130	3,33,35,880	6,39,08,010	-1,10,91,195*
1916-1917	1,79,97,818	1,79,97,810	13,33,2,695	3,21,330	7,03,575	10,25,205	13,23,53,490
1917-1918	11,83,51,231	11,83,51,231	29,09,49,300	3,73,77,165	17,86,230*	3,91,63,395	25,17,85,005
1918-1919	2,25,58,737	2,25,58,737	2,27,63,100	7,53,90,840	....	7,83,99,840	-5,56,36,680*
1919-1920	6,93,61,737	6,93,61,737	48,25,15,571	9,03,13,771	2,98,99,440	12,92,13,211	35,33,02,390
1920-1921	4,03,16,485	4,03,16,485	23,57,38,134	19,69,63,819	1,76,91,904	21,46,55,723	2,10,82,409

* The minus sign represents the net import.

Total net imports of gold, coin as well as bullion in 21 years was 28.79 crores of rupees.

Total value of imports and exports of silver coin and bullion in each official year from 1900-01 to 1920-21.

Year.	Imports of silver.			Exports of silver.			Net Silver Import
	Government of India Rs.	Other coin and Bullion.	Total.	Government of India Rs.	Other coin and Bullion.	Total.	
	Rs.	Rs.	Rs.	s.	Rs.	Rs.	Rs.
1900-1901	52,43,615	12,15,43,806	12,67,87,421	1,40,20,285	1,76,94,815	3,17,15,500	9,50,72,321
1901-1902	87,98,295	11,41,39,711	12,29,38,006	1,23,05,578	3,87,04,085	5,10,09,663	7,19,28,343
1902-1903	50,64,362	11,68,00,512	12,18,24,874	1,15,75,228	4,07,24,124	5,22,98,352	6,95,66,518
1903-1904	83,09,392	17,54,72,986	18,37,82,378	1,42,02,089	3,40,74,625	4,82,76,714	13,55,05,664
1904-1905	62,18,732	17,07,43,237	17,69,61,969	1,22,83,145	3,09,44,100	4,32,27,245	13,37,34,724
1905-1906	32,58,093	16,57,62,318	16,90,20,411	1,10,81,420	7,08,798	1,17,90,218	15,72,30,193
1906-1907	72,14,271	25,32,50,064	26,04,64,295	1,99,92,165	4,16,937	2,04,09,102	24,00,55,193
1907-1908	1,20,83,930	20,32,34,640	21,53,18,570	1,62,35,680	44,00,194	2,06,35,874	19,46,82,696
1908-1909	88,51,093	13,45,48,274	14,33,99,367	1,17,50,767	1,09,64,445	2,27,14,812	12,06,84,555
1909-1910	44,42,556	12,04,79,260	12,49,24,516	1,83,85,706	1,20,89,517	3,04,75,293	9,44,49,223
1910-1911	42,42,556	11,41,89,840	11,84,33,505	2,14,90,965	1,16,39,680	3,21,30,645	8,63,02,860

Total value of imports and exports of silver coin and bullion in each official year from 1900-01 to 1920-21.

Year.	Import of silver.			Export of silver			Net Imports.
	Government of India Rs.	Other coin and Bullion	TOTAL.	Government and India.	Other coin and Bullion.	Total.	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1911-1912	39 12 885	11 38 59,535	11,97 72,420	1,52 62 890	5,11,37,865	6 64,00 755	5 33 72 235
1912-1913	66,42 675	19 87 66 995	20,54 09,670	1 86 56,940	1,47,64 980	3 34 21,920	17 19,87,750
1913-1914	85,71 810	14 35,60 605	15 29 32,415	1 91,67 930	26,34,840	2,18 02,770	13 03 29,645
1914-1915	78 80,535	10 31 64 465	11 10 45 000	2,19 17 655	4 1-, 635	2,23 30 290	8 37 14,365
1915-1916	34 87 605	6,31,57 965	6 66,45,570	1 79 42,970	4 03,830	1 83 49 800	4 95,95 770
1916-1917	58,67,190	24,52 81 110	25,11,48 300	4 47,36 000	1 84 10,865	6 31 46 865	18 80,01,435
1917-1918	87,00 810	21 79 93 050	22 66,93,860	2,53 24 995	1,09 50,795	3 62 75 790	19 04 18 070
1918-1919	14 35 335	28 94 56 580	69 08 91 915	72,49,005	4 53,230	1,17 02 235	67 91 89,680
1919-1920	13 16 324	29,85 56,659	29 98 72 983	44 91,470	30 93,108	75 84 508	29 22 88,475
1920-1921	(Details not available).		11 01 56,805	(Details not available).		4,70,52 917	6,30,99 888

The total net import of silver coin and bullion in 21 years was 380,62 crores of rupees, averaging 15.5 crores a year as against 13.6 crores of gold a year.

On the conclusion of Peace, when restrictions on the fresh import and movements of the precious metals were removed, the Government of India followed the policy of purchasing gold periodically and selling it by a sort of public auction. They had two objects in view *first*, to reduce the internal premium on gold and thereby facilitate the establishment of the new ratio of 2 = Re. 1 as recommended by the Babington Smith Committee and *second*, to support exchange by reducing the imports of gold. "In February 1920 it was announced," says the Controller of Currency in his Report for 1920-21, "that during the ensuing six months a minimum of 15 million tolas would be sold, but this initial programme was extended by further sales on the 19th August and the 1st and 14th September. The effect of the sales on the market price of gold in India can be studied from the last column of the statement which follows. 'In August 1919, prior to the first sale of gold by Government the price of country gold was Rs. 32-4 per tola, and the immediate effect of the announcement was to reduce the price to Rs. 27-8. The cessation of the sales was followed by a marked rise in Indian gold prices, which were:—

Rs. 24-14 on 1-10-1920	A large portion of the gold thus
" 26-15 " 1-11-1920	thrown upon the market by the Go-
" 28-1 " 2-12-1920	vernment was resold later for export
" 28-5 " 1-1-1921	at greatly enhanced prices and
" 27-9 " 1-2-1921	served to support exchange. The
" 29-1 " 1-3-1921	total amount of gold thus sold was
" 30-0 " 31-3-1921	12,529,925 tolas.

The story as regards silver import and its restrictions may also be briefly told in this place to round up the account. Prohibition of the import of silver into British India was removed in February, 1920 along with the removal of the import duty

of 4 annas per oz. This was followed, in June 1920, by the discontinuance of the restrictions on the movement of silver within India by rail or boat, and the next month saw the abolition of the restriction or prohibition of the export of silver. The return of silver coin from circulation, combined with the drop in the price of silver, made it easy for the government to provide all those extra-legal facilities for the issue of silver, which had been denied the public during the War.

The only alternatives left open to the Government of India was thus to add to the note Circulation by increasing the uncovered portion, and failing even that, to raise the exchange. The following table shows the growth of the Note circulation of India.

Figures are in crores of rupees.

Date,	Gross Circulation,	Reserve			Percentage of total metallic reserve to gross circ.
		Silver	Gold.	Securities.	
31-3-14	66.12	20.53	31.29	14.00	78.9
31-3-15	61.63	32.34	15.29	14.00	77.3
31-3-16	67.73	23.30	24.16	20.00	70.5
31-3-17	86.38	19.22	18.67	48.49	43.9
31-3-18	99.79	10.79	20.52	62.48	33.4
31-3-19	153.46	37.39	17.49	98.15	35.8
31-3-20	174.52	29.85	47.31	... ..	50.00
31-3-21	166.15	6.56	24.7	... ..	53.4

N.B. * The securities in the last two years cannot be properly given owing to the confusion in valuation between the new statutory rate of £1 = Rs. 10 and the old rate of £1 = Rs. 15. Thus in 1920 the securities are valued at Rs. 19.58 crores in India, and Rs. 67.27 crores in England, converted at the old rate of Rs. 15 to £1, while those for 1921 are given as Rs. 68.07 crores in India, including Rs. 61.26 crores of Treasury Bills, and Rs. 8.34 crores held in England, and converted at the new rate of £1 to Rs. 10.

This considerable watering of the note issue commenced

from 1917 when the demand for exchange was very heavy, and was achieved by the resort to such devices as the issue of Re. 1 and Rs. 2½ notes. On the assumption that India is a very poor country where the ordinary transactions are of extremely small amount, it was contended that the present notes of even the lowest denominations were of too inconveniently large amounts to be universally acceptable in India. And this contention was attempted to be driven home from the analogy of France, where even in times of peace the lowest denomination of notes was 5 francs, equivalent to Rs. 3, where the people are much richer, and, consequently, their average transactions are of much larger amounts than those of the Indian peasant, and where during the war the issue of notes of even so low a denomination as 1 franc, or ten annas was sanctioned. Such an extension of the note-issue would be necessary if the object of a note-issue is the economy of metallic currency, especially during the extraordinary circumstances caused by a war. Japan, it is said, had issued notes of as low a denomination as 10 sen during Russo-Japanese war. Moreover, the tightness in the money-market in India became tighter than ever; banks began to call in their short loans, or to demand an increase of margin for advances against industrial securities; the value of these securities began to tumble and the general situation of the export trade of the country was imperiled. It was under these circumstances that the proposals for one rupee and two-rupee notes were mooted; and, the situation continuing unchanged all through January and February, the Finance Minister accepted the idea in his Financial statement in March 1917.

We have mentioned at length the circumstances in which the suggestion originated, and also the assumptions on which it was based, in order to render our criticism more intelligi-

ble. It must, of course, be admitted that the present state of India's trade and currency are such that without some increase in the medium of exchange there is every risk that the present wave of prosperity may be wilfully turned away from us. There is also some truth in the statement that the bulk of the transactions of business life in India are of such small amounts that a one rupee note may be more convenient than five rupee notes. But when we have admitted all this we have done all that could be done for such a proposal. For it is a short sighted proposal, based on the perception of the immediate necessity, and prompted in a great measure by a slavish desire for blind imitation of the example of other countries in this respect. (1) In the first place, to carry out such a proposal we must have a radical reform in the very basis of our whole paper currency system. The issue of one rupee notes-or even of one anna notes-would in no way help the situation, so long as the law requires that every note issued, beyond a certain fixed minimum, should be covered by an equivalent amount in specie. Government cannot issue such notes unless they either increase the invested portion of the Reserve, or else alter the law so as to allow a certain proportion of the total reserve-and not a fixed amount-to be invested. Such a change, we have no hesitation in declaring, it would be most unwise to carry out at this time. (2) But even supposing the proposal is adopted, the expected relief may not result all at once. Precisely because notes of such small denomination would be an entirely new experiment, there could be little chance of their being so widely accepted as to bring an immediate, perceptible relief to the currency situation. And even if the Government force such notes into circulation by every means in their power, they would be soon returned to the treasuries or cashed at the Currency Offices. If the Government keeps

an adequate, equivalent Reserve for their encashment on demand, there would be no solution for the currency problem at all. If on the other hand, the Government increase the invested portion of the Reserve, it would risk its credit unnecessarily. (3) The examples of France during the European war, or Japan during the Russo-Japanese War are misleading. With an educated people and a national Government, which is sure to be supported whole-heartedly by the entire people in an emergency like that caused by a great war, those Government could fearlessly attempt measures, which others, situated like the Government of India, must not even dream of. The intelligence of the average Indian peasant is not above believing that the issue of one rupee paper represents the utter exhaustion of all the other financial resources of the Government, and that it is an attempt to quietly deprive the people of their treasured wealth. However much we may deplore such a crudeness, it would be sheer madness to ignore it altogether and deprive ourselves deliberately of all weapons to fight it. (4) Those, moreover, are wrong who imagine that a one-rupee note has but to be issued for the rupee coin to flow into the tills to the Banks or the Treasuries of the Government. A five-rupee note gets into circulation because it is easier to carry about than 5 rupee coins. But a one-rupee note would in no way be more acceptable than a coin of the like value for the note will be probably larger in size and cumbersome to carry about than the rupee. So long as there is a choice between the one rupee coin on the one hand and a one rupee note, on the other, the average peasant in India is sure to prefer the former. For while the note is a medium of exchange and nothing else, at least in his eyes, a rupee is both a medium of exchange and a store of value. If, thanks to a boom in exports, he is able to accumulate a number of

rupees, he can, at a pinch, turn them into anklets for his wife; but so many notes could only serve to light his hukah—and it would be too great a luxury for such as him, if not for those who suggest such a measure. We mention this argument because the notion seemed to prevail that the scarcity in the medium of exchange was due to that fact that the peasant, getting more for his produce in 1917 than in former years, is unwilling to part with his hard-won, much beloved rupees in those times of high prices in the ordinary way of purchases for himself and for his family; that he stored up these rupees, and that if he was given notes he would find them easier for storing up than rupees. It is precisely here that the authors of the suggestion under discussion were mistaken. If the peasant really wanted to treasure up the rupees, he had, we may be sure, enough sense to prefer bits of silver to bits of paper for this purpose. (5) In spite of all the foregoing arguments however, we would have supported the proposal as a desperate, but inevitable, measure had we been convinced that there was no other remedy for the present position. It is true, indeed, that the heavy balance of trade in our favour could not be liquidated in the ordinary way by shipping gold to India owing to the prevailing conditions in England, whose gold resources had to be husbanded with the most meticulous care in order to maintain her exchange with neutral countries. Since the entry of the United States into the War, and with their promise of a monthly loan to the allies of £ 80 to £ 100 millions, the exchange situation of England—with a monthly excess of imports over exports of roughly thirty million sterling,—caused no very grave anxiety. English gold might have been allowed to flow to India to help the present situation. And if the dangers of transport and the chances of total loss on the way made that course impossible, the gold in India in

the various reserves well might have been issued to tide over the difficulty. (6) And though it is a point of detail only we may mention that even the cost of manufacturing such notes would, in the aggregate, amount to a sufficiently respectable sum as to be a serious consideration against such a measure at a time like the war scarce.

In spite of these arguments, notes of smaller denomination were issued and forced into circulation, with the result that the whole of the foregoing argument came to be surprisingly true. . Notes, according to official testimony quoted by the Babington-Smith Committee, went to a discount of as much 19 per cent in some cases. The following official statistics, compiled from the Report of the Controller of Currency already referred to, shows the varying degree of popularity of the notes of various denominations in the last five years. *

Notes of	1916-17	1917-18	1918-19	1919-20	1920-21
Rs 1	nil	33	10,51	13,49	8 52
„ 2½	„	18	1 84	1 18	51
„ 5	3,31	5,45	9,20	11,45	11,05
„ 10	22,60	27,33	46,90	54,73	52,67
„ 20	5	4	3	3	3
„ 50	2,52	3 46	4 90	4 20	3,84
„ 100	25,33	35,53	43 81	50,38	47,22
„ 500	2,45	2 50	1,48	2 63	2 53
„ 1000	11,24	13 80	15,11	16,20	17,81

Of the total notes in gross circulation, the ten-rupee and hundred rupee notes between them account for nearly 70 per cent. on an average, and including the thousand rupee note, the total percentage reaches 80 per cent. At its highest watermark, the one rupee note has not been more than 8.7 per cent. of the total circulation, and of these we have no means of knowing how many were really kept in reserve by the Presidency Banks and

* N. B. Figures are in lakhs of rupees.

the Public Treasuries. Since the last two years, its circulation seems to be on the decline. The 2½ rupee-note has never apparently been very popular, its highest level being 1.4 per cent. of the total circulation, while in the last year under review it was only .4 per cent. The five rupee note also does not show the same popularity as its more valuable sister. The experience of the last five years ought to suffice to prove these measures of watered note circulation, absolutely or practically at the discretion of the Executive officers of the Public Finance Department, to be utterly worthless, excusable, if at all, under the stress of War emergency, whose only justification ought to be that they would be dropped the moment the special emergency has passed.

The last alternative, therefore, left to the Government of India to tide over the special difficulties created by the War prosperity of India, impossible to be paid for in the only international medium of payments, *Viz.* Gold, owing to the desire of the warring nations and their imitators to conserve their Gold resources, was to raise Exchange.

If it was not, strictly speaking, illegal, it was certainly an immoral and pernicious expedient, from the standpoint of the Indian trade. The subjoined table gives the particulars of the various rises ordered in Exchange. These changes have been

Date of	Minimum rate for	defended by the Babington Smith
Introduction	immediate T.T.	Committee, not only as being inevitable as the only alternative to a de-
12-12-19	" 2-4	based rupee or inconvertible paper
22-11-19	" 2-2	currency, but also as constituting a
15-9-19	" 2-0	sort of an advantage to India in that
12-8-19	" 1-10	the prices would not rise so sharply
13-5-19	" 1-8	as they otherwise would have risen,
12-4-18	" 1-6	and also as bringing some relief in
28-8-17	" 1-5	the Indian burden of the Home
3-1-17	@ 1-4½	

Charges. This last is an argument entitled to respect from every financier interested in the stability of the finances of the Government of India. But before the argument can claim to be unanswerable it must be observed that the saving to the Government, even if admitted, is not necessarily a saving to the community. Unless the money thus saved is returned to the community in one form or another, either by remission of taxation or by undertaking works of material benefit, there can be no occasion to plead this saving to the Government as a reason to excuse the rise in Exchange, which would admittedly affect most injuriously the export trade of a country. And the export trade of a country like India means more than three-fourths of the population of India. In the table showing the rise in prices since 1910, given by the Babington-Smith Committee in support of their contention that the rise in prices would have been much greater if Exchange had not been raised, it is shown that while the special Index Number of Imported articles rose from 100 to 265 in 1918 that of exported articles had only risen to 157, while the general Index Number of Imported articles rose from 100 to 265 in 1918, cent. would mean undoing all the effect of that rise in exportable commodities which had been achieved by world factors, uncontrollable by the Government of India. And even granting the special pleader of the benefit in the Home Charges, the Budgets of the last three years have given no indication of the benefit being actually derived by the Indian community, not only because the absolute figure of the Home Charges is impossible to be reduced and always rising; not only because the exchange has, as a matter of fact, despite all efforts of the Government of India to the contrary involving a loss of over 50 crores of rupees to India, again fallen owing to trade depression; but also because the Government of India have not yet been able to see their way to effect any alteration in the principles

which seemed to have dominated their war financing. And when all that can be said in favour of this singular argument of saving in Home Charges has been conceded for the sake of argument, what does it amount to? The saving on £ 40 million per year @Rs. 10 = £1, instead of Rs. 15 = £1 would be 20 crores a year. If the total export trade of India is £ 200 million, and if exchange is artificially maintained @Rs. 10 = £1, the loss to India would be just about 100 crores. The saving to the Government would have to be very considerable, or it would have to be laid out most distinctly beneficially, if it is to be an effective counterpoise for this loss. And this without taking stock of the seriousness of the political prospect held out to Indians of a progressive association in the task of governing the country, resulting necessarily in a *Protanto* diminution of the extraneous, alien element in the public service of the country, and the consequent reduction in the burden of the Home Charges. We in India have had by this time too many, and too painful illustrations of the proverbial perfidy of the nation of Shopkeepers to be very much disappointed if the promised goal of constitutional evolution in India does not wear, even if it is realised, an aspect of financial benefit or retrenchment.

We have already, by anticipation, referred to the recommendations of the Babington Smith Currency Committee of 1919-20. Let us now review them here succinctly to round up the story.

The Committee was appointed to:—

“Examine the effects of the war on the Indian Exchange and Currency system and practice, and upon the position of the Indian Note-issue, and to consider whether, in the light of this experience and possible future variations in

the price of silver, modifications of system or practice may be required; to make recommendations as to such modifications, and generally as to the policy which should be pursued with a view to meeting the requirements of the trade, to maintaining a satisfactory monetary circulation and to ensuring a stable Gold Exchange Standard."

The Committee had to be appointed because the removal of war-time restrictions in the United States in the spring of 1919 had brought about such a sharp rise in the price of silver, and there was such a heavy trade balance in favour of India, aggregating some 120 crores of rupees for 1919-20, not to mention the recoverable expenditure made on account of the British War Office, that the Indian Government was brought to the verge of despair on the problem of how to supply rupees to meet an almost insatiable demand. They had, during and under the excuse of the War, tried their best to prevent the embarrassing growth of the Indian export trade. Failing there, on the signing of the Armistice, they had trusted to the official, though immoral, increase in the rate charged for the sale of the Councils Bills to safeguard them against a too extravagant demand for rupees. But the rise in the rate of exchange, though seemingly unavoidable if the Government were not to incur a loss on coinage, nevertheless involved a breach of faith with the Indian people. The latter had accepted the Indian government monopoly of the rupee, ever since 1893; and had paid the artificial price Government had thought fit to charge for it, in the belief that whenever they desired to exchange their token rupee holding into gold they would be allowed by the Government to do so. Government had concluded according to their own convenience, and decided that India did not want gold. Hence, before the War, they had pursued a policy of keeping practically all their available gold supplies in England. As may be ex-

pected from our amateur financiers, they had also, even before the War, embarked on a policy of seeking to turn this gold hoard to account, and begun investing it in British securities. This was the case not only with the Reserve made out of the profits of silver coinage, the so-called Gold Standard Reserve-but also with a part of the Paper Currency Reserve. The ebullition of Imperialist Patriotism under the impulse of the War suggested the extension of this fundamentally questionable policy. Indian funds began to be invested to dangerous proportions in the British War securities. The result was:—India could not get gold from her own reserves just when she needed it most. The currency history of the last three years would have been radically different if we had not ambitioned after a "Scientific standard" of currency, and ended by locking up all our liquid resources in forms we could not realise at pinch.

The problem that the Currency Committee of 1919 was set to investigate was, therefore, in grim reality, a problem of devising a machinery by which Indian financial interests may not be dissipated by our connection with British, as they had been in the past. In stead, as was to be expected from such a committee, they entirely misunderstood or misinterpreted their terms of reference; and brought out a report, whose only merit is that the recommendations have been all singularly falsified within the short space of a single year. The short-sightedness of these recommendations did not prevent the Government of India from giving them a disastrous trial ending in a total failure, and an abject surrender to the logic of facts; not, however, without entailing upon India a loss of several crores, 35 at least, as the price of this amateur experiment in high finance by the administrative head of the Indian Finance Department.

For a better understanding of the the Currency events of

the last two years let us summarise the recommendations of the Report, and then trace the course of events, which displayed their short-sightedness as well as the callous indifference of the Government of India, to Indian interests, Indian protests and warning.

The salient propositions in the recommendations were :—

“The present rupee, unchanged in weight and fineness, should remain unlimited legal tender;

The rupee should have a fixed exchange value, and this exchange value should be expressed in terms of gold at the rate of one rupee for 11.30016 grains of fine gold, i.e. one-tenth of the gold contents of sovereign;

The sovereign, which is now rated by law at rupees 15, should be made legal tender in India at the revised rate of rupees ten to one sovereign.

The import and export of gold to and from India should be free from government control as soon as the change in the statutory ratio had been effected; and the gold Mint should be open for the coinage into sovereign of gold tendered by the public.

The notification of government undertaking to give rupee for sovereigns should be withdrawn.

The prohibition of the private import and export of silver should be removed in due course and the import duty on silver should be repeated unless the fiscal position demands its retention.

It is clear from this that the Committee (majority, of course) considered the increase in the value of the rupee to be a permanent feature. As they did not care to make definitely the one radical suggestion, which alone could permanently correct, or stabilise, the Indian Currency system, viz. Gold Standard with a gold currency, supported by limited legal tender rupee currency, and paper currency expressed and convertible into gold, they were forced to discover a newer and more stable rate. At the time their report was signed, there was a seeming justification for the suggestion; inasmuch as the

* These recommendations are summarised from the Report of the Controller of Currency,

Indian demand for silver remaining undiminished, thanks to a heavy trade balance in favour of India, there were no great factors in sight which could be expected to bring down the price of silver. And the conclusion was further supported by the political plight in Mexico where an unstable government was impeding to the utmost the production of silver. But by the time the Indian Government had made up their mind to give effect to these conclusions, and announced a series of measures, the trade prosperity had already begun to take a downward trend. The European markets were too disorganised by the unexpected outbreak of peace and its consequent wranglings to make an effective demand for Indian produce, however much they might be wanting it. The British and American markets were early in 1920 known to be glutted with Indian produce, while Indian purchases in response to the wild outburst of industrial activity or enterprise were already beginning to be distressingly heavy. The Indian indents were further precipitated by the Government decision to give effect to the recommendation of the Currency Committee, majority report. The balance of trade began definitely to go against India, totalling 79 crores adversely by the end of 1920-21. The other purchasers from India were debarred by domestic difficulties, which, in the case of Japan, almost amounted to a financial crisis.

It was under this conjuncture that the Government of India decided to give effect to the principal recommendation of linking the value of the rupee with gold at the enhanced rate of $22 = 1$ Re. Though the trade balance was suggesting a demand for Councils, if anything, the Government of India decided to sell Reverse Councils, as though the balance was already against India, and announced their willingness to sell every week a certain amount of Reverse Bills at a rate equal to the new gold par. Exchange, therefore had to be raised to 2½-8d per rupee at

once, and shortly after to as much as 2½- 11d. in conformity with the vicissitudes in the dollar sterling exchange. The latter was adopted as the true barometer of gold value, America being the only free market for gold. The government gave the signal; and a storm of unprecedented violence broke out in the shape of an insatiate demand for reverse Conneils. Government had counted without their host. They had intended probably to counteract trade factors only. They were confronted with demand for Reverse Bills entirely unconnected with trade, and arising out of a desire to remit to England the War profits of British and foreign investors in India. A gigantic speculation followed. And Government had to place limits upon their sales, and restrictive terms of the sale had to be perfected bit by bit. But no restrictions could stem the incoming tide; and Government at last had to retire, after September 1920, from the sale of the Reverse Bills, practically confessing themselves beaten. The net result was that by the sale of 55 million sterling worth of Reverse Bills Government succeeded in withdrawing currency from circulation in India, at practically half its old value, and paid for it in London by the liquidation of our sterling reserve involving a loss of 35 crores of rupees in less than six months. And at the end of it all exchange had to be left to find its own level, and Government were left tainted by an unforgettable suspicion of having acted in anti-Indian interests. As, in the period that followed, trade depression began to assert itself more and more, the balance of trade went steadily against India, and exchange became weaker and weaker, though throughout remaining more stable than when its stability was sought to be propped up at an artificial level by administrative firmans, till it reached the level of 1 rupee being equal to 1½d., a rate unknown for the last thirty years. While the artificial increase of 1920 succeeded in killing the export trade of India, the fall has not yet succeeded in reviving it.- So long as the Continent

of Europe remains disorganised, and trade with the only nations that can make an effective demand for Indian produce remains taboo, practically if not in law, there is no hope for a revival of the Indian exchange. Government might have done something to support it, had they not dissipated so recklessly our sterling resources.

There needs to be reviewed only two small measures, both rather points of detail than evidence of any fundamental principle. In conformity with the policy of the Majority Report Government, by legislative authority, altered the old ratio between the sovereign and the rupee from £1 = Rs. 15 to £1 = Rs. 10. Holders of sovereigns, and of gold mohurs coined as an emergency measure in 1918, were invited to exchange their holding if they so desired it, into rupees, at the old rate during a given time. The futility of this measure could not have been more clearly demonstrated. As sovereigns continued to command a premium, in spite of the heavy sales of gold by Government, no one was found to emulate the idiocy of the Indian financial authorities and to make the exchange suggested. The Government of India afforded the unique example of unparalleled consistency in idiocy in that they sought to recast their budget figures at the new rate, and thus add to the confusion characteristic of Indian finance.

The other measure related to the Paper Currency. The Currency Commission had recognised the danger to the convertibility of the notes, and consequently to the credit of the government in general, through the reckless manipulation of the fiduciary Reserve. By an act of October 1920, the metallic portion of the paper Currency Reserve was fixed at 50 per cent. of the gross circulation while the invested portion was limited to 20 crores in Indian securities, and the

balance of British securities of not more than one year's standing. The invested portion of the Paper Currency Reserve was revalued at the new rate of exchange at far as the extra-Indian securities were concerned, and undertaking was given to devote the profits of the circulation to writing off the depreciation. The interest on the Gold Standard Reserve was also destined to the same end, after the fund had reached the £ 40 million limit. To make the note-issue more elastic, commercial bills or paper, to the extent of five crores, was made available as cover for the first time against notes. The limit arbitrarily placed makes the change hardly as effective as it might have been, and its benefit is the more discounted in as much as the paper currency thus issued is to be regarded as emergency measure.

CHAPTER VI.

PROPOSALS FOR THE REFORM OF THE INDIAN CURRENCY SYSTEM.

Pream-
ble.

With a view to render the preceding analysis and criticism of the Indian currency system more effective and precise, we shall in this chapter make specific detailed concrete suggestions for its reform in every branch. The proposals for reform are given in the form of clauses of an Act of the Legislature, and their explanation given in the form of comments on each section.

A (Draft) Act consolidating and amending the Currency Legislation in India.

Whereas it is expedient to consolidate and amend the law relating to Gold, Silver, Bronze and Nickel coinage current in the British Indian Empire; as also the Law relating to the Paper Currency and the Mint in the British Indian Empire; as also the Law governing the Standard of Currency and the Legal Tender Money and Token Coins in the said British Indian Empire, together with the Law relating to the Imperial Bank of India,

It is hereby enacted as follows:—

(The Currency Legislation of India is a confused mass of scattered enactments of the Indian legislature and the Ordinances of the Governor-General-in-Council which have all the force of solemn legislation. During the late War the system of altering the legislation governing the Currency system of the country by Executive Ordinances was carried to the most ridiculous extent under the pretext of avoiding controversial legislation in time of war. During the first stage of Peace the same pernicious system of carrying out the most

momentous changes by means of Executive Ordinances was followed to the gravest possible prejudice of the people of India. It is, therefore high time the fundamental principles of the Law governing the Currency System of this country were once for all solemnly enacted in the form of an Act of the Legislature, after due deliberation by the Legislative Body. And the moment when the Law is being consolidated would not be inappropriate for introducing those reforms in the system, which experience has shown to be indispensable for the proper working of the organisation as well as for the general safeguard of the trading and other interests involved. The Currency Legislation of India, such as it is, suffers from the cardinal defect of not having yet defined clearly the very fundamentals of a Currency system. The very fact that there is still a legitimate difference of opinion as to the Standard of Currency in India; the fact that we have no very clear distinction between the Standard and the legal Tender Money, imperatively demand that in any legislation consolidating and amending the Law on this subject no room will be left on the question of the Standard. It must be defined clearly and the rest of the organisation and the working of the machine must be laid down with reference to it.

The same reasoning demands an inclusion in the consolidating and amending Legislation of the Paper Currency System, with all its incidental questions of Convertability, Reserve &c. It would be superfluous to add that in India Paper Money is bound to be for some time to come the only practical expedient for securing those advantages of elasticity and convenience which are regarded as the necessary elements for a good Currency system.

The reference to the Imperial Bank is introduced in

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the Preamble inasmuch as it is assumed that the Government would divest itself of the functions of Currency manipulator which they have so far discharged in face of strong adverse criticism. We have had enough of experiments at the hands of amateur Financiers of the Government of India; and we have reasons to suspect the *Bona Fide* of the Financial Experts of the India Office. If, as is to be most fervently desired, the functions of regulating the Currency of the Empire is made over to the Imperial Bank, to which these functions belong of right, the Currency Act must also provide the Constitution of the Bank, at least in so far as the guiding, basic, principles are concerned.)

I This Act may be called The Indian Currency (Consolidated) Act of 1922.

It extends to the whole of the Indian Empire, inclusive of British Baluchistan, Santhal Parganas, the Pargana of Spiti and all the Native States in alliance with, and acknowledging the suzerainty of the Government of India under the British Crown.

This Act shall come into effect from the first day of January of the Year One Thousand Nine Hundred and Twenty-Three A. D., except as specially provided for in the body of this Act to the contrary.

(For the special character attached to this Act see the next following section. The name and title of the Act speak for themselves.)

As regards the extension of this Act to the whole of the British Empire in India including the Feudatory states, the provision is introduced as an amendment of the existing system, with a view to render the Currency organisation of this country uniform. Under the existing system

several Native States have separate Currency Systems of their own, with the inevitable consequence of a fluctuating exchange between them and the rest of British India. The right to coin their own money independently is an evidence of sovereignty which the Indian princes arrogated to themselves on the break up of the Mogul Empire. The British Government did not think it prudent to wound their new allies in the most sensitive part; and the early treaties of the British Government with the Principal Native States did not touch this point at all. Only, in the case of states which were annexed to the Empire of the East India Company as the result of military conquest, or legal Lapse e.g. the Punjab, Oudh or Nagpur, the local currency gave place to the British Rupee. In 1893, when the first radical change in the traditional organisation of the Indian Currency system was proposed, there were 34 states, having their own mints, issuing their own coins bearing the State Device and current within the limits of the State. The weight and fineness of these coins were, of course, necessarily different from those of the British rupee causing considerable difficulty in the inter state trade. In 1876 an Act was passed authorising the Governor-General-in-Council to declare the coins of the Native States, provided they were of the same weight and fineness as the British rupee, to be legal tender in British India. The states were authorised to send bullion to be coined at the British Indian mints. Alwar and Bikaner were the only states that availed themselves of this arrangement. When in 1893 the mints in British India were closed, the Silver coins of the Native States lost very much in value, as compared to the artificial value given to the British rupee by the scarcity of new coins. The States and their subjects, having obligations in rupees, suffered considerable

loss. Under the new conditions caused by the closure of the mints in British India, the provisions of the Act of 1876 were declared by the Government of India to be not applicable. They, however, agreed to buy up their current rupees at their market value, and to supply to the States British rupees instead. Sixteen States including Kashmere, Gwalior, Baroda and Bhopal, accepted this arrangement, so that at the present time only about a dozen have their own independent Currency.

With such an experience the suggestion for securing the uniformity of the Indian Currency system will not be dismissed as being impractical. The Government of India has in the past used its paramount position for introducing important Financial Reforms to bring about a uniform system as far as in possible under the existing conditions, notably in the abolition of the Inland Customs Line 1878-79. It is not, therefore, too much to hope that by diplomatic negotiations the Supreme Government could bring about a uniform system of Currency, which would be as much to the advantage of the Subjects of the States concerned as of the British Indian population. It is, indeed, not inconceivable that the States who still retain their "*Jus Monetadi*", should cling fondly to this one remnant of their former sovereign rights. But thanks to the growth of good sense among the rulers and their ministers, thanks to the recognition of the hardships caused to inter-state commerce by these barriers to free trade, there is no need to despair of arrangements being eventually made for a uniform Currency organisation throughout the Indian Empire. According to a resolution of the Conferance of Ruling Chiefs, held at Delhi in January 1919, a Committee was appointed to consider this problem and report upon the matter to the

Princes concerned. The Committee met at Simla in May 1920, but the public is not in possession of the Report of that body. It must also be added that the Report is bound to be of an advisory character, which the Princes need not accept. But the mere fact that such a Committee was thought of indicates the consciousness of the anomaly; and if the anomaly is recognised, its cure will not be distant. Possibly the Princes may stand out for some "*Quid Pro Quo*". If so the Government of India is not entirely without bargaining power. By offering the States the services of the Imperial Bank free of charge or by admitting the States to a share of the interest from the investments in the Paper Currency Reserve of the Bank, the States could be induced without too great a show of compulsion to abandon their separate Currency system. If the States remain obdurate in spite of all temptations, the only way to render nugatory their independent currencies is to adopt fixed rates of exchange, and instruct the Imperial Bank authorities to try and maintain these rates.)

2. This Act shall be deemed to be of the nature of a Constitutional Act, which shall not be capable of repeal or modification except by another act of the Legislature, passed by a majority of three-fourths of the members present, and provided that a notice of at least six months shall be given.

(The object of this section is obvious from the wording. We have had, during the last generation, sufficient experience of the incompetence of amateur financiers of the Government of India, not to leave this most vital concern for the trade and industry of the country to the discretion of the executive authority. The provision making the repeal or modification of the act impossible except by a legislative enactment is necessary to secure a proper consideration of this important branch of

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practical economics, as also the condition as regards a three-fourth majority in the Legislature. This last may at first appear to be caution carried to excess; but experience justifies us in mistrusting the Government and the votes of their nominees or servants, and so this special precaution. It may, of course, be questioned whether such a provision would not be inconsistent with the general pretensions of this legislation as attempting to lay down the fundamental principles of Currency Legislation; but so long as we take no special measures to place currency legislation in a class by itself and render it inaccessible to ordinary administrative expedients, we should invariably be exposed to the danger of tampering with it on a thousand and one pretexts. The defining of the root principles would avail us very little if the law is left to be altered or amended or ignored by executive authority. It must, however, be admitted that a considerable portion of the apprehensions, in which this provision takes its origin, will be rendered without foundation if the most sensitive part of the Currency machine is taken bodily out of the control of the inexperienced Government officers, and placed in charge of business men through the medium of the Imperial Bank and its Directorate. But even so, the necessity to make the legislation incapable of alteration except by a special machinery laid down in this law cannot be denied. The distinction implied by the use of the word "Constitutional" is not yet recognised in the Indian polity as fully as may be desired; but this would serve as a beginning.

3. In this Act, unless there is anything repugnant to the subject or context.

- (a) "STANDARD GOLD" or "STANDARD SILVER" means Gold or Silver eleven-twelfths of which is pure metal and one-twelfth alloy.

- (b) **"STANDARD WEIGHT"** means the weight prescribed for any coin. S. 3
- (c) **"DEFACE"** with its grammatical variations and cognate expressions includes clipping filing, stamping or such other alteration of the surface of the coin; or of its shape as is readily distinguishable from the effects of reasonable wear.
- (d) **"MINT"** includes the mints now existing and any others which may hereafter be established.
- (e) **"PRESCRIBED"** includes prescribed by a rule made under this act.
- (f) **"REMEDY"** means variation from the standard weight and fineness prescribed by this Act for the various coins.

(This is a section of definitions. We have kept unchanged most of the important points in the definition section, except the definition of the **"STANDARD OF CURRENCY"** which has been left to be defined separately by a separate section. It may be noted here, however, that when the entire Currency system is being overhauled the moment would not be inopportune to consider whether we could not introduce with advantage the decimal system in prescribing the fineness and the weight of the coins. There can be no question that the decimal system would be much the more suitable, as much on account of the ease of calculation as because it is the one adopted in most of the leading continental countries. But if the Currency organisation of the British Empire is sought to be rendered uniform; it would not do for any single member of the Empire to make this great change independently. There has been an agitation in the United Kingdom for the decimalisation of Weights and Measures as well as of

the Currency for now well over two generations. But, judging from the Report of the Committee appointed to consider the Commercial and Industrial Policy after the War it would seem that the bulk of the business world still inclines to maintain the *status quo*. The following extracts from the Report (1918) explains the reasons for rejecting a proposal for reform which, on the face of it, has everything to commend it to men of a scientific bent of mind.

"While bringing us nearer to the American system, the change would take us further from the Latin Union, under which 25 francs are roughly equivalent to the sovereign. What, however, chiefly weighs with us is our belief that this change would, in fact, lead to the abandonment of the Sovereign as the standard and working unit of international exchange, and for this reason alone we are unable to recommend its adoption.... We come next to the scheme placed before us by the Associated Chambers of Commerce. This scheme, while retaining the sovereign as the Unit of Value, adopts as the "Unit of Account" the florin of 100 cents, the cent being worth 4 per cent less than the existing farthing. The florin would no doubt be a convenient unit for ordinary domestic purposes, though perhaps scarcely as convenient as the present shilling; but, apart from the difficulties involved in an alteration in the value of the penny which we discuss later, the scheme is equally open to the objection that it in fact involves the abandonment of the sovereign, and it must on this ground alone be rejected. We are strongly in agreement with the opinion expressed in the report of the Committee of the Institute of Bankers that no decimal system of coinage, which is not based on the pound sterling, can possibly be accepted by the bankers of this country and that the present pound sterling, unchanged in weight and fineness, must remain the unit of value. As that committee state, the pound sterling is universally recognised in the settlement of international transactions throughout the world, and any abandonment, even in name only, of its use as our standard unit, would be fraught with risks which it would be unwise to incur." (Paras 297-300)

The reasons given here do not seem to us to be quite strong enough to outweigh the scientific simplicity of the proposed change. It rests, moreover, on an assumption which, if true so far, is rapidly being negated. The sovereign is not quite the medium of international payments, since London is gradually losing her pre-eminence as the financial centre of the world. If that centre comes to be definitely located at New York, the rejection of the proposal for the assimilation of the British Currency system with the American system may quite possibly appear as a short-sighted piece of the usual insular conservatism of the British people. The weight, moreover, attached in the Report to the views of the Bankers Institute seems to us to be extravagant as the Bankers are not entirely disinterested in the advice offered. As it is, however much the change may be desirable, no single part of the Empire can take upon itself to inaugurate it on its own individual account.

4. The Governor-General-in-Council may, by notification in the Gazette of India,

- (a) Establish a Mint at any place at which the mint does not for the time being exist, and authorise such Mints to issue coins mentioned in the Gazette of India instituting the Mint, and
- (b) Abolish any Mint whether now existing or hereafter to be established.

The British Mints in India have a history of now nearly three hundred years. The Company had a mint at Surat early in the seventeenth Century, and it issued coins current in the dominions of the Company in the East. But the Company found it convenient not to depart too much from the familiar notions and common customs of the

S. 5 Indian people; and so we find everywhere the Company introducing the Rupee as its Standard Coin, issued by the mints under the authority of the Company. But, though thus admitted to be competent to have their own coinage system, the Company's Government do not seem to have been anxious to coin gold in their Indian mints—a precedent, which has latterly been used by the authorities of the "Royal Mint" of England to the disadvantage of India. In the first years of the present century there was a Battle Royal between the Government of India and the Royal Mint as to the feasibility of Gold Coinage in India. It is only recently during the War that the full right to coin gold was conceded to the Mint at Bombay. The foregoing section, leaving it to the Executive to establish or disestablish the Mint, is not quite inconsistent with the general principle of this legislation. The Legislature may lay down rules as to the suitability of a place to demand a mint of its own; in which case the Executive would have no discretion at all, and therefore no possibility of creating mischief. We would, however, add that the more logical and more economical arrangement would be to have one central Mint for the whole of the British Empire in India. With Banking facilities as outlined in subsequent sections the need for a separate Mint in such centres as Bombay would not be quite so imperative as it is now; and we can expect to carry on business quite smoothly with a single Mint located in some central, convenient place, not necessarily the political capital of the Empire.)

5 The Currency System in India shall be organised on the basis of Gold Standard.

I regard this as the most important of the changes proposed, which has, therefore, been stated in a separate section by itself to guard against a possible obscurity. The entire system must be framed in accordance with this basic idea.

The Importance of A Standard.

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We need hardly elaborate this axiom of the Monetary Science. The need for a clear definition of the Standard is emphasised as much for purposes of business convenience as for legal accuracy. The State has to enforce, through the medium of its Courts of Law, contracts between citizens every day; and unless a clear, intelligible definition of the standard of measuring the obligation is provided, the administration of the Law would prove to be almost impossible. The State must, therefore, interpose its sovereign authority to define the Standard. But once the Standard is defined by the proper authority, it would be mischievous in the extreme for the Government to meddle with it and upset the arrangement established on the basis of the definition. It is this disregard of the fundamental principle of Currency organisation that has caused such bitter criticism of the action of the Government of India; and, as that body does not yet possess the confidence of the people of India, it is but natural that the people of India, suffering under the ill-conceived experiments of amateur financiers, should have discovered the most sinister motives as influencing the conduct of the Government of India. It is, indeed, quite true that there has so far in the Currency history of the world nowhere been discovered a standard which is so perfect that no modification of it need be at all necessary. As will appear more fully in the following commentary upon this section such a perfect standard is almost impossible to establish out of the existing materials. But because, owing to extraordinary circumstances bringing about a complete revolution in the habits of the people a change in the Standard is conceivably advisable, it does not follow that a frequent tampering with it will be equally permissible or innocuous. The demand for an alteration of the Standard has usually been justified on the ground of an obvious injustice as between debtors and creditors in time contracts owing to a very serious change in the general level of prices. We shall discuss below somewhat more fully the relation between Prices and the Standard. Here we need only observe that, while it is theoretically conceivable that the general price may have so altered as

being premised, we must next consider why it was that S.6 to 13 this very highly desirable consummation was not realised in practice, however much it could be expected from the recommendations of the Fowler Committee, as well as from the attitude of the Government of India.* As already remarked, the system which arose out of the recommendations of the Fowler Committee and the steps taken to give effect to those recommendations came gradually to be the system which Lindsay had put forward. It was felt that the attempt to introduce a gold currency all at once would be frustrated as much because of the difficulty of finding an indefinite quantity of gold coin to meet possible demands for conversion, as from the conservative habits

* The following extracts from the speeches of Lord Meston when he was Financial Secretary to the Government of India as well as an extract from a despatch of the Government of India would show that the Government, if they were at all a party to the perversion of the recommendations of the Fowler Committee, were so against their own judgement. "The broad lines of our action and our objects are clear and unmistakable, and there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Committee that progress has been real and unbroken. There is still one great step forward before the ideal can be reached. We have linked India with the gold countries of the world, we have reached a gold exchange standard which we are steadily developing and improving. The next and final step is a true gold currency. That, I have every hope, will come in time, but we cannot force it." (Budget Speech, 1910, Meston.)

"It is, we think, an undisputed fact that the establishment of a gold currency was regarded as the logical and natural sequence of the closing of the mints to silver, and the necessary accompaniment of a gold standard. Such a measure will mark a step along the path which has been authoritatively accepted as the line on which our currency policy must develop, and in time it will be of great assistance in maintaining the stability of our currency system. Our proposal for a gold coinage has behind it the overwhelming support of the Indian public opinion." (Despatch of the Government of India, dated May 16, 1912, to the Secretary of State.)

the closure of the mints and the consequent famine of the silver coins, was necessary. As the sub-joined table shows, however, it was not so much silver which had depreciated as Gold which had appreciated in value; and hence the change, carried out at a tremendous cost to the S. 5

Table Showing Movements in Value of Gold and Silver.
1873-1893.
(Average for 1873-100).

Year	Value in U. K. as measured by purchasing power over commodities Index Numbers		Gold value of Silver.	Value of rupee in India as measured by purchasing power over commodities Index Number	Value of Silver in China as measured by purchasing power over commodities Index Numbers.
	Gold.	Silver.			
1873	100	100	100	100	100
1874	109	107	98	92	92
1875	116	111	96	103	89
1876	117	104	89	100	83
1877	118	109	92	77	91
1878	128	113	89	72	87
1879	134	116	86	79	83
1880	126	111	88	91	88
1881	131	114	87	101	84
1882	132	115	87	102	85
1883	135	115	85	101	89
1884	146	125	85	93	88
1885	154	127	82	94	88
1886	161	123	77	97	86
1887	163	123	75	96	88
1888	159	115	72	90	92
1889	154	111	72	85	88
1890	154	124	80	85	88
1891	154	117	70	84	88
1892	163	110	67	76	85
1893	663	93	60	78	84

N.B. The Table given above has been taken from "Modern Currency Reforms" by Kemmerer. The Index Numbers for the value of gold are the reciprocals of the Sauerbeck Index Numbers for the whole-sale prices in the United Kingdom of from 45 to 45 commodities.

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people of India in the forced depreciation of their silver possessions, was scarcely a change affording a radical cure to the problem before the Government of India:

We need hardly point out the obvious fact that the one metal that remains the least affected in this period of twenty years is not gold but silver, particularly if we compare the silver prices in China. For purposes of comparison the Chinese prices are the best, as there was all through that period an unadulterated Silver Standard in that country, while the Indian prices were to a large extent vitiated by the anxiety to maintain the exchange value of the Rupee at as high a figure as possible. The remedy, therefore, was not precisely what the evil demanded because the Government were too much impressed with the hardships of a class, and not sufficiently patient to consider the interests of the country. Class legislation is always pernicious, and more than ever so in the circumstances of India.

THE PROBLEM OF THE STANDARD.

The need for a Standard being premised, the next question is what material shall we select to afford the most suitable Standard. The object of having a Standard is to afford an objective, concrete test for measuring the exchange value of commodities. As much of the exchange nowadays is carried on over long periods of time, the commodity selected for the Standard must be such as to give always an exact test for value in exchange, in spite of the changes that may have taken place in the exchange-ratio of particular commodities with one another. In other words, while all other commodities may change their exchange value owing to forces operating on their demand or supply, the article selected to perform the function of the Standard must ever continue to express the same ratio with reference to all other articles. Such an automatic standard is impossible to

discover so long as we must have one commodity to act as standard, so long as we must have a concrete means for measuring values. The Standard Commodity will itself be liable to the same forces of demand and supply, which cannot act precisely in the same direction as in the case of every other commodity individually, and all other commodities collectively. Gold and Silver have been used as Standard in all countries so far. But we can scarcely say that either of these is absolutely impervious to the play of economic forces of demand and supply, or that it could vary so automatically as to express always the same ratio, no matter what changes have taken place in the production or consumption of millions of articles whose exchange value is expressed in terms of the Standard. The Problem of the Standard is not merely a choice between the two precious metals. It raises the much more important and radical question of finding a means of measurement which would be unexceptionable from the point of view of Social Justice. In an age when constant changes in the methods of production are steadily altering the cost, reducing the cost of production and thus affecting exchange values, it is quite possible that in a contract of loan, for example, repayable twenty years later, the position of the parties may not be precisely the same at the time of borrowing as well as at the time of repayment. The Rs. 1,000 in 1900 may quite possibly represent something more than the purchasing power of the same sum in 1920. On the other hand during periods like the last war and owing to influences through which we have recently passed, the general level of prices may be rising, so that the Rs. 1,000 of 1900 may represent a much lower purchasing power in 1920.. The perfect Standard would avoid such discrepancies, if only we could discover it. Failing a perfect Standard the

S. 5. Problem is: How shall we distribute the loss or gain from the alteration of the general level of prices. It would be unjust to strain empiricism so far as to assume that the debtor class being the weaker class should be given the benefit. Under our modern organisation of society the most considerable debtors,—the State and the Municipalities, Joint Stock Companies and other trading corporations,—represent anything but the poorest section of the community. The Standard must, therefore, be such as, allowing for the imperfection of the materials at our command, would allow of as close an approach to the ideal as possible.

The problem of Standard, thus conceived, is not a proof of determining which of the two precious metals, which have so far discharged the functions of the Standard of Currency, shall be adopted by us as the Standard metal; it perhaps both, but is rather the problem of framing a mechanism which would permit of the least possible fluctuations in the general level of prices. Gold and Silver, as much as any other commodity, are liable to alteration in their own value as compared to the values of other articles; they cannot, therefore, fulfill the functions here conceived to be the proper functions of the Standard. Great economists have suggested the creation of an imaginary Standard corresponding to the idea of the general level of prices, and called by a variety of names such as the Multiple Standard or the Tabular Standard or the Commodity Standard. Briefly speaking, such a standard is made out of the averages of the most important articles of common consumption, with suitable weighting &c. of each. Prices of the same number of articles are regularly collected and averaged and compared from year to year, taking the prices

in a given year as a starting point. There is nothing inherently impossible in having such a standard; nor is it inconceivable that after the initial difficulties are over the Standard would cause little inconvenience in practice. The analogy of the Sliding Scale of Wages, practised in many large industrial enterprises, may safely be quoted as an apposite illustration to show the practicability of such an abstract Standard. And it is rather an advantage that such a standard does not dispense with our more conventional Standard, but only helps them to be more accurate.

“The reason why it (the Multiple Standard) would probably never be adopted in the mass of every-day transactions running no longer than three or four months is that the term is not long enough to introduce serious risks, and, therefore, that the resort to the Multiple Standard is not necessary.”

(Laughlin “Principles of Money” p. 52.)

We may also add the other reason that the very rigidity with which the Tabular Standard would help to maintain evenly the position of the debtors and creditors would in practice be a strong reason against it. For the question may be asked, in spite of the existence of the Multiple Standard, as to who has the right to the surplus produce or who must bear the reduction of values which has been brought about by causes over which neither party to the transaction had any control. The Multiple Standard might solve the problem of affording a suitable measurement. It does not quite solve the problem connected with distributive justice. We may dismiss as impracticable such other suggestions as a “Labour Standard” or any other commodity Standard e.g. wheat. They do not remove or even minimise the difficulties indicated above. We are thus reduced to the usual, the only, alternative of having a metallic Standard;

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and the choice lies between Gold and Silver.* The Double Standard, given a fixed relation between the two metals may be set aside, not only because it is impracticable unless accepted by the whole trading world but also because it only fixes the ratio between gold and silver, but does not, cannot, stabilise other prices. On a small scale; i.e. if adopted by a single country, it is likely to do more harm than good. As between gold and silver, the latter was practically the Standard of the greater portion of the trading world till within quite recent times.† But within the last hundred years a steadily growing portion of the trading countries has gone over to Gold Standard. The reasons for such a change may be summarised thus: a continuous and rapid decline in the value of silver in relation to gold between 1870-1900; growing demonetisation of Silver in consequence; and the inherent advantages of the Gold Standard. Being more valuable than silver, gold is more easily transportable and consequently more suitable for international commerce. As within the last generation the trade of the world has considerably increased, Gold has been adopted as the natural standard of international payments. In this country, when it was first proposed to recast the

Says Ricardo, the father of all monetary discussion, "Strictly speaking there can be no permanent measure of value. A measure of value should itself be invariable; but this is not the case with either Gold or Silver, they being subject to fluctuations as well as other commodities. Experience has, indeed, taught us, that though the variations in the value of gold and silver may be considerable, as a comparison of distant periods, yet, for short spaces of time, their value is tolerably fixed. It is this property, among others, which fits them better than any other commodity for the uses of money." (Ricardo, Works, p. 120)

† In his time the conditions being different Ricardo prefers Silver as the Standard. "Silver, too, is much more steady in value, in consequence of its demand and supply being more regular, and as foreign countries regulate the value of their money by the value of Silver, there can be no doubt that silver is preferable to gold as a standard, and should be permanently adopted as such." p. 408.

traditional standard of the country, the Government were, ^{S 5} not ready with any well-considered plan. They had not abandoned every hope of saving the traditional standard of the country by some sort of international Bimetallism. At the same time they had come to the end of their resources, and could not go on with any degree of safety or stability in their finances with silver as the Standard. Under the circumstances, they contented themselves with an experiment. The mints were closed to the free coinage of silver, not with any clear determination to alter the Standard, but merely to tide over the immediate difficulty of a falling exchange as affecting the Home Charges. By the time that they had managed to bring the ratio between the pound sterling and the rupee to the desired level, the situation had altered. The prospects of International Bimetallism were brighter after the Report of the Wolcott Committee in the U.S.A., and even the United Kingdom seemed to smile upon the proposal. But the Indian Government had brought about a conjuncture of circumstances which prevented them considering the proposal for Bimetallism on the old ratio of $15\frac{1}{2}$ to 1. The new ratio in India was nearly 22:1, and a disturbance of that ratio within less than a year of its adoption was not to be thought of for obvious reasons. A return to the Silver Standard was also out of the question, though it was clear that the interests of the Indian exporter were bound to suffer, and, therefore, also those of the Indian Ryot, under a policy of artificially raised Exchange. Famine and plague had no doubt disorganised the trade of India so much that no good evidence of the loss to the Indian trade on account of a rise in the rupee exchange could be had. A sudden re-opening of the mints might have very probably caused such a fall in exchange as to disturb seriously the relations between debtors and creditors and materially

S. 5 derange the finances of the Government. Before the anticipated decline in exchange could be accomplished under such a policy, there would be considerable withdrawals of capital from India, which the Indian Government was taught to regard as a great calamity. The Fowler Committee unanimously rejected the proposal to re-establish the Silver Standard.

The only alternative left was to accept frankly the superior advantages of the Gold Standard. There was as close an approach to unanimity on this point as was possible under the circumstances, though there were suggestions for the practical working of the new Standard, which, if adopted, would most likely have opened up a new sea of troubles. The Government of India objected to the niceties of the practical working of the new system as hinted at in the evidence of Mr. Probyn and Mr. Lindsay. Practical merchants, like Sir S. Montague or the Lord Rothschild, advocated a proper Gold Standard with a gold Currency and a Gold Mint, though they recognised, even more perhaps than the Government of India, the immediate practical difficulty of getting sufficient gold to permit the change being carried through. The Committee accordingly reported:—

“It is evident that the arguments which tell against the permanent adoption of Mr. Probyn’s Bullion Scheme and in favour of a gold currency for India, tell more strongly against Mr. Lindsay’s ingenious scheme for what has been termed an “Exchange Standard.” We have been impressed by the evidence of Lord Rothschild, Sir John Lubbock, Sir Samuel Montague and others, that “any system without a visible gold currency would be looked upon with distrust.” In face of this expression of opinion, it is difficult to avoid the conclusion that the adoption of Mr. Lindsay’s Scheme would check that flow of capital to India upon which her economic future so greatly depends. Moreover, if the system were

to be permanent, it would base India's Gold Standard for all time on a few millions of gold (rather command over gold) in London, in exchange for rupees received in India, to an indefinite extent. This was the main reason which weighed with the Government of India in deciding not to adopt the scheme, and we think they were justified in their conclusion. We are not prepared to recommend Mr. Lindsay's scheme, or the analogous schemes proposed by the late Mr. Raphael and Major Darwan, for adoption as a permanent arrangement; and existing circumstances do not suggest the necessity for adopting any of these schemes as a provisional measure for fixing the Sterling Exchange.

We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that at the same time the Indian Mints should be thrown open to an unrestricted coinage of gold.....Looking forward as we do to the effective establishment in India of the gold Standard and currency on the principle of the free in-flow and out-flow of gold, we recommend these measures for adoption." Para 53-54)

The Gold Standard had, therefore, to be accepted in principle. We shall discuss briefly, in the comments on the next section, the circumstances which led in practice to an entirely different system; to the realisation, in fact, of the Lindsay plan which the Government of India had so clearly objected to, which the Fowler Committee had so unreservedly rejected. Here we may recapitulate that the reasons which made it imperative for the Government of India to adopt a change of the Standard were due to a continuous decline in the value of silver, and the consequent confusion in the finances of India caused by the sterling obligations of the Government of India; that finding that the trade conditions would also lend themselves to facilitate the change, as gold was admittedly the most suitable medium of International exchange, they hastened the advent of the new system and prepared to

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meet the difficulties of the transition period. The intentions of the Government, the expectations of the public were disappointed as our comments to the next few sections would show.

6. The **STANDARD OF CURRENCY** shall be the English Sovereign containing 123.27447 grains Troy of gold eleven-twelfths fine i. e. containing 113.0016 grains troy of pure gold and 10.27287 grain troy of alloy.

7. These coins shall be coined freely at the Mint in India at the rate of £ 3 17s. 10 d per Oz. of gold.

8 The Mint shall not ordinarily take more than a month for coining the gold tendered at the Mint for that purpose.

9. The Imperial Bank of India may, as hereinafter provided, receive Gold bullion and give in exchange gold coin or Currency Notes at the rate of £ 3-17s-9d for every ounce of gold.

10 Subject to the provisions of this Act in that behalf contained, the discretion of the Bank aforesaid in offering notes or gold coin in exchange for the bullion tendered for conversion shall be absolute.

11. The Mint in India shall not coin any other Gold coin except the Sovereign as provided in this Act.

12. Gold coins minted at the Royal Mint, or at any of the branches of the Royal Mint in the British Empire, shall be legal tender in the Indian Empire, provided that they are Sovereigns or half-Sovereigns which are legal tender in the United Kingdom.

13. All other gold coins shall be receivable at the Mint or by the Imperial Bank of India as bullion, and shall be converted on demand by the aforesaid Bank at the rate mentioned above.

The necessity for the Gold Standard and Gold Currency

“Councils” and the “Reverse Councils” the foreign trader S.6 to 13 in India as well as the foreign public servant felt that all that they two could desire had been achieved. The Government had to obtain funds in England to meet their sterling obligations. With a fixed rate of exchange the element of uncertainty, which had hitherto cramped the Finance Minister in India, disappeared. The necessary funds could be procured in England by offering to sell, from week to week, a stated amount of Bills on the Government of India payable in the local Indian currency in India, against which the money can be received in sterling in England. As these Bills sold by the Secretary of State for India in council, (and therefore called “Councils” in short) were offered at a rate appreciably lower than what would be required if gold had to be shipped to India by those who had to pay for the Indian produce in India, the authorities in England soon came to realise the double advantage concealed in this procedure. As the balance of trade in favour of India has almost always been in excess of her obligations to England, the “Councils”, judiciously managed, could be made to afford assistance to trade at the same time that the flow of gold to India would be checked, and a decent profit obtained by the Secretary of State. The gold would thus accumulate in England. On the assumption that London was the central money-market of the world where India would have to make payments in the event of the balance of trade going against her, and where she would have to purchase silver for her currency, it was felt that such a centralisation would help to save India the cost of transport either way. The logical conclusion of such a policy would be that these “Councils” should be sold at the fixed rate without limit i.e. to the full extent of the balance of trade in favour of India. But obviously this could not always be attained, as

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of the people, who, suffering from an unjust loss through the depreciation of their silver possessions, would look askance at the new system for some time. There was also the danger of possible hoarding of gold to be considered. The only source of gold, open to the Government of India, was the profit from the silver coinage, apart from borrowing abroad. But the profit would take some time accumulating before it could be expected to suffice for a possible demand. If a gold currency were honestly adopted the rupee coinage would have to be either limited on the analogy of the French Currency; or stopped almost wholly by the discontinuance of the rupee as the unlimited legal tender. Under either of these two alternatives the possibility of building up a good fund of gold would be very scarce. In the meanwhile the real difficulty, which had forced the attention of the Government of India to the currency question at all, could be met as well by the Lindsay scheme. The rupee was to be fixed in its relation to the pound sterling. * The English gold coins were declared legal tender, Government pledging itself to give rupees or notes against coin tendered then at the fixed rate. For all practical purposes there was Gold Standard; and, when the Government undertook to maintain this fixed rate by the mechanism of the

* There is a dispute, as well there might be, as to whether the value of the rupee was fixed with reference to gold or with reference to the pound sterling. Was the standard of Currency 7.53346 grains of gold or was it 1/35 of the pound? The pound sterling was legal tender at the fixed rate, but the facility of conversion was one-sided. They were bound to give rupees or notes in exchange for gold but not vice versa. Good faith demands, however, that gold and not the pound, be considered the Standard of Currency as fixed in 1899-1900.

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The new system, christened as the Gold Exchange Standard, was not the conscious creation of the Government of India, but rather the outcome of circumstances which showed more and more clearly as time went on, the advantages of the system. The large balances that came to be maintained in England as the result of the working of this system came to be considered a legitimate perquisite of the London bankers, the amount of gold thus saved and kept in the London market being quite a respectable quantity.* The purchase of silver, the obvious excuse for keeping the gold belonging to India in a foreign centre was negotiated so as to make the Indian Government an easy prey to the ring of silver speculators in England and America. † The Indian critics seem to have confined their opposition to the system, as established after 1900, to the unquestioned loss suffered by the Indian peasant in the depreciation of his silver hoards. ‡ The later complaints about an unfair treatment of Indian

* Table of Balances.

Year 31-3	Cash Balances India in million £	Cash Balance England
	£	
1899-1900	8 426	3331
1903-04	11870	7285
1907-08	128	46
1910-11	136	167
1913-14	156	81
1914-15	148	79
1915-16	120	70
1916-17	153	54
1918-19	153	106
....	173	146

† The broker for the India office was supposed to get £15,000 per annum, and the London bankers paid 2 per cent. only.

‡ Cp. the Speeches on the Budget by the late Mr. Gokhale 1902-3.

S. 61013 there was a definite limit to the sales of the "Councils" in the available balance of currency in India. The only way in which currency could be increased and the limit to the Council sales raised was the coining of new rupees and the increase in the Note circulation. The latter, under the principle of fixed Reserve, which was the guiding feature before the War, could not be added to. The former, though the Government added considerably to the rupee coinage in the 15 years immediately preceding the last War, was also incapable of an indefinite expansion owing to the dread of a rise in the price of silver by too great a demand and the consequent disappearance of the profit of coinage.*

* The following table shows the Import (net) of Gold and Silver into India, the rupee coinage, the note circulation (gross).

Year.	Treasure (Net Import.)		Rupee coin- age (whole and half re) lakhs rs.	Currency Notes in Cir- culation (Gross) crores.	Sovereigns absorbed in million
	Gold (£ Million.)	Silver			
1899-1900	6.3	2.4	37	Rs. 27 96	....
1900-01	5	6.3	1,32	" 28 88	....
1901-02	1.3	4.8	16.93	" 33 74	£ 967
1902-03	5.8	4.6	3.82	" 39 29	" 2 198
1903-04	6.6	9.1	3.25	" 45.15	" 3 778
1904-05	6.5	6.9	11.15	" 44 52	" 2 937
1905-06	3	10.5	7.81	" 49 66	" 3 732
1906-07	9.9	16.0	16.88	" 54 35	" 5 156
1907-08	11.6	13.0	23.38	" 57 37	" 7 427
1908-09	2.9	8.0	15.70	" 65 22	" 3 443
1909-10	14.5	6.3	24	" 65 55	" 2 866
1910-11	6.0	5.8	* - 8	" 64.04	" 8 091
1911-12	25.1	3.6	1	" 64 10	" 8 8 1
1912-13	22.6	11.5	30	"	" 11 000
1913-14	15.6	8.7	16.00	" 66 12	"
1914-15	5.1	5.9	10.51	" 61 63	" 4 987
1915-16	~ 7	3.2	14	" 67 73	" - 3
1916-17	8.82	12.5	* - 2	" 86.38	" 913
1917-18	16.8	12.7	29.38	" 99 79	" 7 700
1918-19	- 3.7	45.3	22.60	" 153 46	" 3 473

Neither the Government of India nor its critics; neither the Chamberlain Commission nor the Indian Bullionist seem to have considered the possibility of a rise in the value of silver to a point which would render the coinage of silver unprofitable. The remedy, tried in the last few months is entirely without any foundation in the recommendations of the various commissions, nor in accordance with the dictates of public good faith and morality. By raising the Exchange value of the rupee the moment it ceased to be profitable, the Government have exposed themselves to the most serious suspicions as to their motives in committing this flagrant and criminal breach of faith. The excuse of a possible loss through continued coinage of rupees; or, of the danger from an inevitable inconvertibility of the Currency Notes were recklessly added to were possible at all because the policy of shutting out India from her reasonable share of the world's gold supply had been so persistently, though perhaps unconsciously, followed in the half generation preceding the War. The higher "scientific" system broke down precisely at a moment of crisis against which it was supposed to be such a sure remedy.*

* Says the Chamberlain Commission (Para 50)
 "It was proved in the crisis of 1907-8 that the gold in circulation in India was of very little value for maintaining the Exchange. The Indian system as the crisis revealed it, is, as we have said, more like the system advocated by Mr. A. M. Lindsay in 1898 viz. a gold standard supported by gold in reserve, with a currency for internal use composed mainly of rupee and notes..... Experience has further shown that though in origin and machinery the Indian Currency system based on what is now known as the gold exchange standard is different from the currency systems of such other countries as Russia, Holland, Japan or Austria-Hungary, yet in actual practice these latter systems are not very different from that of India..... To sum up, our view is that India neither demands nor requires gold going to any considerable extent for purposes of circulation (as opposed to saving or hoarding,) that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing, and this is the cardinal feature of the whole system, absolute security for convertability into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations." (Paras 50, 51, 76 of the Final Report)

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reserves must depend on that. We would be placing an unjustifiable premium on the banker's dishonesty if we ask him to keep his reserve in gold even though the currency consists of silver, and the usual demand of his customers are for silver. Gold in circulation in India, under existing conditions, can only displace rupees, as the notes would be more convenient than rupees. * Above all the gold standard and gold currency will help to stabilise prices and avoid speculation, which is the most desirable thing for India. The risks of depreciation to capital investment would disappear, so that our industries will have the much needed stream to fructify them. The need to maintain large balances in England, which is such a prominent feature of the existing system, will also disappear, and our money-market be freed from its periodical stringency. †

* The Chamberlain Commission observes:

"All experience goes to show that so long as the public have an option of making payments in tokens or in gold, it is the surplus tokens and not the gold which will seek an outlet at a time of weak exchange." But this observation cannot apply to our suggestions as for small payments there would be no option left nor would a considerable surplus of token coins be allowed to remain in circulation.

† "The extent to which India should use gold must, in our opinion, be decided solely in accordance with India's own needs and wishes; and it appears to us as unjust to force gold coins into circulation in India, on the ground that such action would benefit the gold-using countries of the world, as it would be to attempt to refuse to India facilities for obtaining gold in order to prevent the drain of gold to India."

The argument of the Commission (ibid.) seems to be strangely oblivious of the fact that the annually increased production of gold is bound to have an effect on the general price level, unless additional use can be found for the new gold. The Indian consumption is one of such uses. No one, of course, would suggest that India can or should be made to absorb more than she needs. But it would be unfair, under the specious argument of India being a sink of precious metals, to shut her out almost completely from her legitimate share of the world's gold as was the case in War-time, as was also the case, though much less pronounced, in the earlier period by means of unlimited sale of Council Bills. The fact that India was able to weather the War successfully was not because of the excellence of her currency system, but in spite of it. We dare not think what would have happened if India had had to meet a monthly adverse balance of £ 30 million, with no foreign securities, with no gold in circulation,

enterprise owing to the unprofitable policy of the Govern- S. 6 to 13
 ment in locking up considerable liquid capital in a distant
 centre were the result of practical observations of actual
 hardships, rather than a consequence of the realisation of
 the theoretical unsoundness of the whole system. The
 mistake was made at the very commencement by permitting
 the assumption that India was a debtor country as against
 England which was a creditor country in the markets of the
 world, and that therefore the English system could not be
 suitable to India. If we consider the figures of the Trade
 Balances, India is even more a creditor country than England
 And even making allowance for the debit items in the shape
 of the "Invisible Imports" making up the Home Charges
 India still was a creditor in international exchange, as her
 Exports of merchandise showed a balance in her favour even
 after the Home Charges had been accounted for. There was
 ordinarily speaking no great likelihood of an adverse balance
 which would have to be settled by an export of gold from
 India any more than it was the case with England. Indeed,
 on a strict comparison of the items which enter into the in-
 ternational Balance of Accounts, it would rather appear as
 though the United Kingdom was in a relatively weaker
 position than India, since the invisible exports of England
 would suffer in a world crisis, while her imports would, if
 anything, show an increase. * The system, therefore, as

* In the first months of the late war India showed a weak
 trade balance, but soon recovered her position. England never could
 throughout the war.

§ 6 to 13 it was developed in the fifteen years immediately preceding the War, though it worked pretty smoothly in ordinary times was bound to break down in a crisis. †

We may now consider why, after a brief attempt in the early years after the Fowler Report, no serious attempt was made to introduce a proper gold standard with its invariable concomitants of a gold currency and a free gold mint. The advantages to the London money-market, already pointed out were too clear not to attract the attention of the shrewd men of business who formed the finance Committee of the India Office. And once you have discovered practical advantages of a system, its theoretical justification is easily found.* We would not suggest, the eminent men, who have lent their countenance to the Gold Exchange Standard and all that it stood for as applied to India, were influenced by ignoble motives. There is no contradiction in granting that men like Mr. Keynes are impossible to bribe. The fact, nevertheless remains that the new system, whatever its theoretical benefits, was in practice opposed to the true

† It was England, and not India, that had to declare a Moratorium or national suspension of payments to tide over War Conditions.

* The Gold Exchange Standard, according to Mr. Keynes 'arises out of the discovery that, as long as gold is available for payments of international indebtedness at an approximately constant rate in terms of the national currency, it is a matter of comparative indifference whether it forms the actual national currency'. (Indian Currency and Finance by J. M. Keynes)

interests of India, - and was, if anything, calculated to aid ^{§ 6 to 13} the British money market at the expense of India. *

Once it was decided that India was not to receive a gold standard, it was easy to explain the reasons why it would not be in the interests of India to demand it.† The arguments against the introduction of a gold currency and a gold mint as the necessary conditions of a true gold standard may be thus summed up, on the authority of the Chamber-

We may here sum up our grounds of practical objections to the Gold Exchange Standard in India:

- (a) It is based on a radical misconception of India's position in international exchange. She is not a debtor but a creditor country. For purposes of foreign exchanges her very borrowing for public works &c. is so much strength of exchange.
- (2) It involves the maintenance of large balances in Govt. Treasuries which are thus inaccessible to the commercial world in India. The investment of a part of these at short notice by the Secretary of State, though productive of some slight gain, is an additional cause of grievance owing to the transparently unfair treatment of Indian interests.
- (3) It is worked on the basis of unlimited sales of Councils, thereby preventing the natural flow of gold into India. The accumulation of large sums in England is used partially for the purchase of silver for Indian coinage, rupees being added to the circulation without any clear estimate of the absorbing capacity of the country.
- (4) The composition and location of the Gold Standard Reserve, its object and investments, its location and control offer a never failing reason for discontent.

† Says the Chamberlain Report:—

"It is not to India's interest that further effort should be made to encourage the circulation of gold as currency. We regard gold in circulation as wasteful and we think that India should be encouraged to develop economical habits in matters of currency..... But while educating the people in the use of more economical forms of currency, it is important that Government should continue to act on the principle of giving the people the form of currency they ask,"

(Para 14)

S 6 to 13

lain Commission of 1913-14. If gold were used actually for currency purposes, India might not, it is argued, be able in a time of crisis, to find sufficient quantities of gold for export to settle her unfavourable balance. (2) The poverty of the Indian masses and the smallness of the average transaction of exchange in India would render gold coin unsuitable for every day purposes. Gold coins put into circulation would be most probably driven into the hands of million dealers. (3) The institution of a gold currency was likely to be most difficult for India as she had no gold production at home at all comparable to the possible demand for it, while by the attempt to obtain gold from abroad by melting rupees the price of gold in terms of silver would suddenly go up to the prejudice of India.*

But these are mutually contradictory, and they all rest on a fundamentally erroneous view of India's needs. India need not fear in normal years any considerable adverse balance. The fear of a financial crisis, though wholesome, is exaggerated out of all proportion when it is made the excuse of shutting India completely from her share of the world's gold production. Taking the figures since 1890 we find our exports upto 1919-20 never falling below our imports, in spite of wars and famines. But for this strength India would not have succeeded in financing to the best of her ability the heavy expenditure on account of the British Government during the War, besides subscribing heavily to the various war loans of her own government. Famine, indeed, is not yet an impossible contingency in India; but a single year of famine and its adverse balance may be met easily from Government reserves of gold in the paper currency, or in their cash

* These arguments have been summarised from the Report of 1913-14 and from Mr. Keynes' monograph, already quoted.

balances. And if, unfortunately, there is a series of two or three years of continued famine, a most unlikely assumption-India could hope to borrow on terms by no means disadvantageous, thanks to her connection with the British Empire, and thus liquidate her foreign obligations. The danger of gold in circulation being hoarded is not peculiar to India, at least in days of world crises. Against this known danger, which, we may observe, is very much exaggerated by English merchants and economists who take their cue from the traders, it is not impossible to provide. Only, the remedy is not a negation of the first axiom of monetary science; but rather a better organised banking system. Unless we have a sound system of credit organisation we shall be no nearer the freedom from the danger of hoarding, whether we have a traditional gold standard or the scientific Exchange Standard. We have elsewhere in this Act provided for a Bank which in our opinion would meet this criticism as nearly as possible.

If the second argument is true the first loses a good deal of its importance. The people are too poor in India to be able to hoard gold, since 80 per cent. of the population are barely able to live. It seems inconsistent to say that the people of India are too poor to use gold, and yet express the apprehension that there would be hoarding merely because the currency contains a few gold coins. Of course, a very small number of bullion dealers may hoard up; but *ex-hypothesi* these men would be too shrewd to miss a fine opportunity for export in the hour of crisis

* "A careful examination of all available data leads us to estimate the total stock of gold in India to-day at £ 372,000,000. In 1835 the stock was £ 56 millions; at the closing of the mints £ 193,000,000, twenty years ago £ 200,000,000 and ten years ago £ 252,000,000 (Findlay Shirras' *Indian Finance and Banking* p. 231)

S. 6 to 13

There cannot, then, be much danger of hoarding if the bulk of the gold remains in such competent hands. No doubt, there is a good deal of such hoarding in India. * But the explanation, in our opinion, is that there is yet no confidence in the currency policy of India. Until quite recently, (and on account purely of war conditions even then) the rupee was notoriously overvalued. The currency notes were payable as of right only in silver rupees at this overvalued rate. Under the circumstances the Indian trader and cultivator acts much as his compeer anywhere else in the world would do. He takes gold which seems the most stable in value. Finally, the proposal to have a Gold Standard does not necessarily spell the abolition of all other coins, ipso facto. India will continue to absorb silver because silver would still form the bulk of the currency for every day transactions, even though the legal tender of silver coins be limited. By judicious banking arrangement we may succeed in avoiding the danger of hoarding and yet have a currency system which ensures public confidence without exposing the government to such shifts as had to be resorted to during the last twelve months.

As for the last argument, it is true the local gold production in India is barely $\frac{1}{4}$ of the requirements, if even so much. But thanks to the steady balance in favour of India we need not be afraid of not finding gold enough to carry out the change proposed. If the system of unlimit-

According to the statistics of the gold production of the world and India's share of it as given by Mr. Findlay Shirras (op. cit. p. 452) it appears that out of a total world production of £ 1,631 million worth of gold India has received only £ 172 million in round figures during the last twenty years. This means a little over 10 per cent. of the world production, though India has nearly 20 per cent of the population of the world.

ed sale of Councils be omitted, the annual flow of gold ^{8 to 13} into India would be about 30 million sterling. For immediate need we have the various Reserves to rely on for facilitating the introduction of a gold currency. *

The Exchange standard being ill-conceived and unacceptable, and the return to a silver standard being now too late to think of, the only alternative is to have a clear Gold Standard in name as well as in fact. We have, therefore, laid down the English sovereign as the Standard of Currency. It would probably be too large for internal circulation, except in large transaction, where, as provided for elsewhere in this Act, the improved banking system would help to economise the use of gold coins. The suggestion that India should be educated in the use of cheap forms of the media of exchange would be easily carried out by an increase in the notes, which, if made payable in gold as suggested here, will inspire greater confidence than has been the case hitherto. With a strong gold reserve in the country, naturally resulting from the use of gold as currency, husbanded by the help of a proper banking system, we shall provide the best remedy against the periodical troubles in exchange. This gold in circulation would not, as was assumed by the Commission of 1913-14, be at the expense of either rupees or notes, but will rather be an addition to the centralised Bank Reserve, ready mobilised against possible contingencies, and circulating only in so far as the country does not take to banking habits, or in parts away from the influence of banks. The ultimate support of exchange must be the kind of currency in general circulation. Even the Bank

The Paper Currency Reserve contained on June 25 last Rs. 44.99 crores worth of gold coin and bullion. The Gold Standard has now no gold in reserve

S. 14-20

the loss of several million sterling involved in the coinage of rupees at the high price of silver. They could not, also, go on indefinitely coining rupees irrespective of the price of silver, though the business-world had, for nearly twenty years, acted on the assumption that Government would be willing to give rupees at the fixed rate. They had acquiesced in the artificially high rate of the rupee in 1899, and the Indian people had been made to bear the loss involved in the change of standard, on the clear understanding that Government would give local currency indefinitely in exchange for the international medium of exchange. It was quite true that when the rate was fixed no one had in view the situation as it developed after 1916. But it was none the less a breach of public faith on the part of the Government of India to raise the Exchange value of the rupee to escape the loss involved. *1

Continuation from page 191.

"The evidence submitted to us was strongly opposed to allowing the note-issue in India to become inconvertible, whether wholly or partially if it can possibly be avoided. It is true that as a result of the War paper currency has become practically, if not legally, inconvertible in many countries, including the United Kingdom. We believe however, that the note using habit is not yet sufficiently established in India to render the introduction of a similar measure there possible without grave risks. Until recently the circulation of notes outside the larger town was comparatively small, and only two years have passed since notes of small denomination have been introduced. In many parts of the country the climate is not suitable for the use of paper money, and the preference for coin will probably prevail among the mass of the people for many years. In these circumstances failure to convert may lead to considerable discount on the note, the extent of which cannot be predicted with any accuracy. The credit of the Government would suffer a severe blow. We hold, therefore, that the maintenance of the convertibility of the note issue is a vital part of the Indian currency system" These changes were all carried out as war measures in peace time.

1 The foregoing remarks about the findings of the Committee of 1914 apply only to the majority Report. The minority Report, signed by the solitary representative of India on the Committee differs in all essential particulars from the majority recommendations. We have in most points accepted the reasoning of the minority report, and made our suggestions in the spirit of that report, though there is the chief difference between these suggestions and Mr. Dalal's recommendations, that he is for the unlimited legal tender of silver; while we, being convinced that the whole mischief arose and would again arise by allowing a fundamental false idea of our currency system being rooted, have proposed a demonetisation of silver and the limitation on the legal tender of the rupee. Ours is a Gold Standard and Gold Currency system, while the Minority Report takes care to preserve the outward form of the Gold Exchange Standard, in spite of a frank avowal of disbelief in it. (see para 11)

The provisions of ss. 7-13 do not need any elaborate § 6 to 13 justification. In the main they are consequential, following as a matter of course on the adoption of the principle contained in the governing s. 6. The intention is to bring the system as near as may be into line with the British system. In the interests of Imperial unity, and more still, in the interests of simplicity in business dealings, we have not countenanced the suggestion of a separate Indian gold coin, which to us has very little value except in the matter of our national vanity. The provision to oblige the Bank to issue coin or notes in exchange of bullion is based on the English analogy, though the time allowed to the Mint is greater than in England, and the consequent saving in interest to the bullion tenderer would be greater in this country. We have stopped the coinage of half-sovereign as the coin is admitted to be too small to be convenient for carrying about. In India, as we do not desire to displace rupees or notes of smaller denomination altogether, there is no need for coining half-sovereign. Of course it remains legal tender in India as in the rest of the British Empire. The discretion granted under this act to the Imperial Bank to offer coin or notes in exchange for the gold bullion will be explained later. *

* 1 We may note, by way of an interesting appendix, the controversy in England during the war period about the restoration of Gold Standard. Mr. Arthur Kitson had led a vigorous attack on the prewar Currency of England in the columns of the Times Trade Supplement and his works such as "A Fraudulent Standard" &c. His main contention may be summarised by saying that the Gold Standard was combined with the legal tender laws of the country, forcing an artificial value on the gold commodity, which very considerably limited the industrial expansion of the country. There was indeed a substitute for gold, viz. Paper money; but as the notes of the Bank of England were, under the Bank Act of 1844, incapable of expansion except by a corresponding increase in the quantity

4.6 to 13 of gold in reserve against them, the English currency system had not the elasticity which is most desirable in a currency system. Summing up the advantages of gold as a standard of currency, he finds the balance against the use of gold. For the advantages consist of the expenditure in England of the profits made by a very small class of financiers, the attraction of foreign deposit by London being a free market for gold, and the ready negotiability of a Bill on London in consequence. Against these advantages he places the disadvantages:

1 Constant disturbance to business caused by frequent fluctuations in the rate of discount.

2 Opportunity to gold speculators in the international market to make profit at the expense of British trade and industry.

3 The drain of national savings through the country banks to London and thence to the Continent.

4 The financial danger to the country involved in holding large amounts of foreign deposits payable on demand or at short notice to foreigners;

5 And the discouragement of capital investment in England. His remedy is to divorce the cheapest form of money viz. notes from its present connection with gold, and thereby secure all the advantages of an elastic currency and an invariable bank rate. "A national paper currency would liberate our gold for employment as a commodity exclusively in settling foreign trade balances, without disturbing our home trade and industries."

Mr. Kitson's attack, however, omits to consider the importance which gold has obtained, quite by accident or convention, as an article of universal acceptability in the settlement of international transactions. Mr. Hartley Withers could well point out the absurdity of having a gold pound for international purposes and a paper pound for domestic trade, with no connection between them. It must be conceded to Mr. Kitson that: (1) The return to a gold standard would mean a heavy and unjust loss to the debtors in view of the indebtedness of all Europe, and the consequent burden of taxation for the benefit of financiers; (2) The needlessness of gold for domestic trade in a highly civilised community with ample banking facilities. (3) The inadequacy of gold to meet the demand of increasing world commerce &c. But until we come to a stage where the exchanges of nations are reduced to treaties concluded by Government every year, or until we agree to an international money, it would be impossible to accept in its entirety Mr. Kitson's ideal. We may therefore accept the conclusion of Lord Ouliff's Committee: "But it will be clear that the conditions necessary for an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay." (Report para 15.)

14 The Mint shall coin, for issue under the authority S. 14 20 of this Act, a silver coin called the Rupee.

15 The Standard weight of the Rupee shall be one hundred and eighty grains Troy, and its Standard fineness shall be as follows: viz. eleven-twelfths or one hundred and sixty-five grains of fine silver, and one-twelfth or fifteen grains of alloy.

16 The Rupee shall be taken as equivalent to $\frac{1}{15}$ of the Gold sovereign, or 1s. 4d. being taken as equal to one Rupee.

17 No other silver coins shall be coined at the mint under the authority of this act for purposes of circulation in the Indian Empire as currency.

18 The smaller coins, viz. the half-rupee, the quarter Rupee, and the one-eighth of a Rupee shall be demonetised. They shall be received at the Mint, or at the Imperial Bank, within three months after the passing of this Act, for exchange against full Rupees, Currency Notes or gold to the full extent of the nominal value within the legal Tender limits as prescribed by this Act. The period here prescribed for exchange of small silver coins may be extended by the Governor-General-in-Council on the recommendation of the Legislative Assembly, especially passed in that behalf.

19 The Gold Coin, prescribed as Standard of Currency by this Act, shall be a full legal tender in payment or on account, provided that the coin,

(a) has not lost in weight so as to be more than .05 per cent below the Standard weight, and

(b) has not been defaced.

20 The Silver Rupee shall be a legal tender in payment or on account for sums not exceeding one thousand rupees at one time, provided that the coin

S 14 20

- (a) has not lost in weight so as to be more than one per cent. below Standard weight, and
- (b) has not been defaced..

The limit of legal tender of the silver coins may be progressively reduced at intervals of not more than a year by resolutions of the Legislative Assembly till the limit is reduced to one hundred rupees at one time.

The main points which call for any comment in the foregoing sections are these :

- (a) The general demonetisation of Silver.
- (b) The fixing of the ratio between the Standard of Currency and the Rupee, and
- (c) The limitation of the Rupee as legal Tender.

The third follows as a natural consequence of the first; so that really the explanation and comment are needed for the first two.

Twenty years ago the people who demanded a pure silver Standard for India had no doubt the interests of the people as their main excuse. The events of the last fifty years, however, and more particularly the change of Standard involved in the legislation and orders consequent upon the Fowler Committee, render any re-opening of the silver controversy unprofitable. The people of India have been made to bear the loss involved, and, in the next twenty years, we may assume the relations have been so adjusted as to allow for the change, and to distribute the loss. To return to the pure Silver Standard would be now fraught with the most serious danger to the trade and industry of India. We have, accordingly, left this alternative entirely out of our Currency System, even if we believed that silver was the preferable medium for settling international indebtedness. The apparent emphasis on the Foreign trade here

should not be construed to mean an indifference to the needs of the interprovincial trade of India, as proper provisions will be found elsewhere in this Act. S. 14 20

But we cannot ignore the fact that Silver still constitutes the most important portion of our Currency. * We must, therefore, take means to safe-guard the interests of the silver holders in a way which would not interfere with our main principle underlying these changes.

At the time of the Chamberlain Report, as already observed, no body seems to have taken into consideration the rise of silver in relation to gold. It was thought that by offering to sell gold at a certain fixed minimum rate in the event of the Balance of trade being against India, and by selling Councils without limit in ordinary times, the Exchange Standard would be fully maintained.† But, during the War, conditions on which the safe working of the new arrangement depended were revolutionised. After a first few months of panic the trade of India recovered with a bound. Prices soared like rockets, and

* Out of a total circulation of over 600 crores, rupees amount to 300 crores, note 175 crores and the rest gold.

† The Commission wrote: (Para 180).

“On the one hand, therefore, the interests of trade are in themselves no justification for sales of Council Drafts in excess of requirements as we have defined them, for if according to trade, the Secretary of State were actually to go beyond his own needs, it would mean that he would bring to London money for which he had no need and that sooner or later he would have to send it back to India. On the other hand the attempt to limit sales in advance to any particular sum is arbitrary and unnecessary. The suggestions we have received in this connection are based on the assumption that Govt. ought never to bring home more than their immediate requirements, but any such limitation of the discretion of Government would merely interfere with the economical management of their remittances without securing any other advantage.” But the policy was supposed to hinge on unlimited sales in spite of this advice.

S. 14 20 the balance began to pile up in favour of India. † At the same time the converse stream of payments due from India dried up. The Home charges were more than swallowed up in the expenditure which the Government of India undertook on behalf of the Home Government which was recoverable in England. The remittances of English merchants in India were frightened into complete stoppage in view of the high taxation of income and property in the United Kingdom. The ordinary alter-

† The following table shows the trade balance and price-level.

Year.	Excess of Exports	Index No. Imports	Index No. Exports	General Index No.	England
	£				
1909-10	47·213	100	100	100	100
1910-11	53·685	101	107	106	103
1911-12	59·512	107	114	112	110
1912-13	57·020	107	121	117	110
1913-14	43·753	105	126	120	110
1914-15	29·108	134	122	123	139
1915-16	54·026	217	128	151	172
1916-17	60·313	210	134	121	226
1917-18	61·420	265	157	184	249
1918-19	56·540	...	...	...	...

native of shipping specie ‡ to India was not to be thought of in face of the jealousy with which all the belligerents and the neutrals were guarding their store of gold and silver. ‡ The obvious alternative of tiding over the difficulty by raising loans in India on the credit of the British Government was not thought of, though exactly the same course was followed to steady the Anglo-American exchange from the very first year of the War. India was never prepared to receive her favourable trade balance in any but the most primitive form of specie settlement, and she could not of her own accord turn suddenly to investing abroad in years of a world-war. The authorities, while blaming India for her antiquated and unprofitable methods of receiving her trade balance, did nothing to work out an alternative, while they went on perpetuating the vicious circle by selling Councils without limit and thereby creating a demand of silver against themselves.

The result could have been foretold by the merest tyro, except the quidnuncs who manage the Indian currency system. The price of silver went up beyond

† The price of silver was controlled during the War. The following table shows the Treasury Imports into India during the last 10 years.

Year.	Imports (Net) gold (in £ m, £	Net Import: Silver.	Year.	Imports (Net) gold (in £ m, £	Net Import: Silver.
1909-10	14 416	6 242	1914-15	5 537	6 676
1910-11	15 986	5 714	1915-16	3 227	3 717
1911-12	25 178	3 528	1916-17	2 797	1 440
1912-13	25 052	4 383	1917-18	14 306	971
1913-14	15 530	4 163	1918-19	015	038

It would be noted from this table that: (a) India even before the War was showing an unmistakable fondness for gold, the gold imports in the pre-war period being four times the silver imports. (b) During the war period India got less than one-fourth of her usual demand for the precious metals. The coinage of silver during the same period was beyond all precedent as shown elsewhere.

S 14 20

all previous records * War conditions had prevented production being kept up to the highest pitch, while a serious demand had set in for more silver to be used for small change in all nations. China was also a heavy buyer in the later years of the War, though normally she has to export specie to settle the adverse trade balance. The Indian demand on top of all raised the price of

* Table showing the total world production of silver, its price, the imports into India and the rupees coined.

Year, quinquennial	Total Production in mil, oz,	Indian Imports in mil, oz,	Price per fine ounce in pence,	Gross rupees coined,	Average ex rated of exchange.
average 1871-5	61.2	16.63	59.05 d	7,45	22.61
" 1876-80	70.6	24.72	52.72	8,66 6	20.53
" 1881-5	85.6	21	50.62	4,95 0	19.64
" 1886-90	109.0	33.9	44.83	8,07.1	17.10
" 1890-5	157.6	42.15	39.42	8,25 3	15.49
189 1896-00	165.6	27.80	28.4	4,20	15.10
" 1901-5	170.0	56.85	26.12	11,84.6	16.00
" 1906-9	191.0	93.54	28.30	14,22 7	16.02
1910-11	222	61.0	23.70	58	16.04
1911-2	226	54.87	24.60	94	16.06
1912-3	224	32.22	24.57	12,42	16.08
1913-4	224	91.07	28.03	16,33	16.05
1914-5	161	71.10	27.57	4,84	16.07
1915-6	180	55.76	25.31	1,53	16.00
1916-7	161	32.93	23.70	21,29	16.08
1917-8	164	92.19	31.31	26,48	16.14
1918-9	180	74.53	40.87	41,37	16.53
1919-20	...	237.63	47.57	13,71	17.54

N.B. The figures in Col. 1, & 4 are for calendar years, those 2, 3 and 5 being for the official year ending 31 March

" " The price of silver during 1919-20 soared to beyond 80 pence per fine oz. and the exchange was raised by official proclamation from 1|5d. to 2|4d. by 6 stages in 10 months.

silver beyond all previous record.† The Government of India had invested their coin reserves to the hilt, so that there was no means of meeting the demands for rupees that set in except by the mintage of more rupees or by the issue of additional notes. The note circulation was manipulated by administrative ordinances permitting the raising of the invested or fiduciary reserve, and allowing such increased fiduciary portion of the note-issue to be invested in the rapidly diminishing British Government securities. * The dependance of the additional notes was not without its dangers in a country like India, with its government conducted by an alien bureaucracy in which the people were losing their faith, and with the masses of the people being too illiterate to understand the occasion for the flood of paper money thrown upon them. The Government felt the danger of inconvertibility to be a much greater evil than

S. 14 20

* 1 The price of silver was controlled during the War by the prohibition of the imports of silver on private account into India from 3rd. Sept. 1917. As this did not remove the strongest competitors of the Government of India the negotiations were opened with the Government of the U.S.A. for fixing a price of silver. By the Pitman Act passed on April, 23, 1918, the U.S.A. Govt. was authorised to sell the other governments silver upto 350 million dollars from the Dollar Reserve. The Indian Government acquired 200 million fine oz. under this arrangement at a fixed price of 101 cents the fine oz. When this control was removed by the American Govt. in 1919 the difficulties of the Indian Govt. commenced. The following figures show the silver purchases of India: 538 million fine ounces between April 1, 1915 to November 30, 1919. It is something more than a mere difference of opinion to say that the price of silver, and therefore the cost of the rupee, would not have risen so much, if, instead of buying so much silver, the Government of India had taken means to encourage its export at favourable price, and settled the Indian balance by means of a loan in India floated on the security of the British Government, or sold in India the Indian Railway and other debt held in England. It was an excellent opportunity to reduce the Indian Home charges in matter of debt, but was deliberately lost, in spite of the obvious example of England in mobilising foreign securities for the stability of the Anglo-American Exchange.

Year.	Gross cir.	fid. reserve.	Percentage.
31-3-1914	Rs. 66 16	Rs 14 00	21 1
31-3-1915	" 61 63	" 14 00	22 7
1916	" 67 73	" 20 00	29 5
1917	" 86 38	" 48 49	56 1
1918	" 99 79	" 61 48	61 2
1919	" 153 46	" 98 58	64 2
26-3-1920	" 180 35	" 94 87	52 2

† The following observations of the latest Committee appointed to report upon the Indian Currency muddle, may be quoted with advantage as proof of inconvertibility with silver.

S. 21 25 24 The Mint in India shall not be open to the public for the coinage of any but gold coins.

25 In the making of Gold and Silver coins a remedy shall be allowed of an amount not exceeding the following: name,

Coin	Remedy in weight	Remedy in fineness
Sovereign	Five-thousandths	Two-thousandths
Rupee	Five-thousandths	Two-thousandths

The provision to pay in gold the most important sections of the public revenues is introduced to guard against the possible danger of hoarding. In the case of the Land Revenue, the Excise Duties, the Stamps and Salt Duties, the Railway and Irrigation dues the same provision might have been introduced, but for the hardship it would involve. That the other revenues may be paid in any form of legal tender money; and to avoid the oppression on the small farmer in India, we have even suggested that the Governor-General-in-Council may dispense with the legal tender limits in the case of those who are likely to be victimised by too rigid an enforcement of this Act. If the entire scheme outlined here is carried out in the spirit in which it is conceived, the new Bank of the Indian Empire will make its special care to bring the facilities it offers to the richer business to the door of the poor cultivator, and thus avoid the necessity of payment of Government dues in some form of metallic currency. If the Bank becomes, as we intend it should, the Treasurer of the Government, the payment of Government dues will be most easily effected by the simple transfer in the books of the Bank. In the case of Customs and Income Tax dues the same arrangement may no doubt occur; but presumably these are relatively richer men, and, if the hoarding of gold is a real danger which must be guarded against, it would be best to start with the men most likely to offend against public policy in this connection, and that successfully. We are also not without support of good precedent in proposing such a measure. The United States

The raising of the exchange was brought about by the Government of India forcing the market up against themselves. It could have been easily avoided, if Government had allowed the export of silver; and if, since they were doing so much of the country's legitimate banking business they had encouraged habits of receiving the favourable trade balance in more economical forms. As it was, the new Committee of 1919 had to be specifically instructed to consider the relation of the gold and silver in view of the conditions. S. 14 20

"And to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to such modifications, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintain a satisfactory monetary circulation and to ensuring a stable gold exchange standard."

The Committee, therefore, started to consider the factors which had caused this phenomenal rise in the value of silver and to suggest a new ratio. They came to the conclusion that the price of silver had been raised by the falling of the world production side by side with a great increase in the demand for the white metal. The fall in the production was due, they thought, to war conditions of high prices of accessories for mining as well as owing to the unsettled conditions in Mexico. After the War, the majority of the Committee felt, the production might be increased, but the demand would remain as great as ever. Hence they suggested the ratio of £ 1 = Rs. 10. They did not consider, what has since become evident, and could even then have been foreseen that the war conditions were passing away, and prices might any day tumble down. *1 They took no account of the possible increase in the output by the restoration of normal condition in Mexico, and they failed entirely to consider the probable fall in demand. The United States

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Government, though bound to replace the depleted Dollar Reserve at a guaranteed minimum price of a dollar per fine oz., that guarantee applies only to silver produced in the States. The very great chances of the reduction of demand for coinage purposes by European nations on their finding even silver to be a too costly and wasteful medium of exchange was also not sufficiently considered. Under the circumstances, the Committee's finding on the matter was open to the most serious doubts. We have, therefore, suggested above a much lower rate, the old rate of Rs. 15 = £ 1. This has not only the convenience of being familiar, as well as the advantage of being more durable; it is also the rate which would cause the least disturbance in the mercantile world.*

The adoption of a fixed rate between silver and gold coins is, indeed, in the nature of life-blood to the gold exchange standard; but not so indispensable to the principle on which the suggestions contained here are based. We hold that the Gold Exchange Standard, in spite of all the theoretical advantages of economy and efficiency that can be claimed for it, is unworkable in practice. Its

* The news of the Chinese boycott of the Japanese goods came to India in May 1920, and soon after that of considerable reduction in prices in America. The Japanese price have fallen, and Japan ceased to be the buyer of Indian goods that she had been all through the War. As a result of that the prices of Indian securities began to fall rapidly; and though it would be unjustifiable pessimism to say India is on the verge of a panic followed by a heavy trade depression, it is nevertheless a fact that prices have not yet recovered from the first shock of unfavourable news. The Chinese demand for silver, that was so great a factor in the decision of the majority, has slackened, and the normal condition of Chinese trade of an adverse balance involving an export of specie seems to be in sight, no matter what the outcome of the present discontent with Japan may end in.

main, essential mechanism has in India broken down twice in S. 14 20 two crises, though for different reasons. In the special circumstances of India, with its Government in the hands of an absolute foreign bureaucracy, the system is all the more unacceptable, as it opens up infinite possibilities of suspicions as to the motives in particular moves in the management of the currency system in moments of crises, not to mention the special objection on the score of the incompetence of the Civil Service to handle such financial questions.

The location of the Reserves of large proportion in a foreign centre, however conducive to economy in normal times, involves the serious danger of being inaccessible in the hour of crisis affecting the financial centre. The country with a Gold Standard becomes exposed to all international crises, owing to the short-sighted desire for economy in the ordinary settlement of trade balance abroad. Supposing that it cost, in normal times $\frac{1}{2}$ d to send a pound of gold to India from England, the saving involved in preventing the shipment of £ 5,000,000 to India would amount to £ 10,000.

But the loss to the country in the hour of crisis would be far more considerable if the authority, pledging its credit to the maintenance of the fixed exchange, is unable to do so. The rise in the Exchange value of the rupee to 2½ 8d would have involved a loss to the people of India, on a total export trade of 250 £ million of about 187½ crores of rupees. It is also exposed to the other danger: that by keeping habitually large sums in a foreign centre, the country not only becomes a prey to the machinations of bullion speculators in the international markets, but also begins to invest in the securities of that foreign country to the prejudice of the home trade and industry. In a moment of international crisis these investments are liable to heavy depreciation, and are often unsaleable precisely when the funds are most urgently needed to support national credit. *1 All these

* 1 Says the latest Report on the Indian Currency system:

“When the exchange value of the rupee was 1½ 4d the rupee, the equivalent of the Home Charges on the basis of £ 25,000,000 a year was 37½ crores; while if the necessary sum was remitted at an exchange of 2½ the cost would be 25 crores only, a saving of 12½ crores. On the other hand there would be a loss involved in the revaluation in rupees of the sterling investments in the Paper Currency Reserve. If the revaluation were made at 2½ the rupee the depreciation to be made good would amount to 38½ crores” (para 53)

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evils were intensified in the particular circumstances of India by the unavoidable infection of politics into economic questions. We have consequently utterly discarded the Gold Exchange in principle as well as in practice, and have framed our recommendations so as to render the entire machinery of the exchange standard obsolete. We are, consequently, not much concerned in the learning bestowed on the question of a stable exchange, though we must protest against the conclusion arrived at by the majority of the Babington Smith Committee as to the effects of a high exchange on the trade and industry of India. Proceeding on the broad general principle that: "Stability (of exchange) is an important facility rather than an essential condition" for the current operations of trade, the Commission have no difficulty in brusquely setting aside the great danger involved in too frequent an interference with the rate of exchange. It may be that ordinary small fluctuations are included in the risks incident to business, and that the bankers can help to minimise those risks by "Hedging;" it may be that the present condition of world finance will make it exceedingly difficult for India to obtain foreign capital, and consequently the need for stability to attract outside capital may not be so great. But when all allowance is made for a new rate, and that a high one, the fact remains that such changes introduce a most unwelcome element of speculation which prevent trade and industry from following their

normal channels. *1 But when the Commission go on to S 14 20 consider the effect of high exchange on the price level, they are utterly, unspeakably wrong. The figures before them showed unmistakably that while the price of the articles imported had risen between 1910 and 1918 by 265 per cent, those of exported articles rose only by 157 per cent. The Indian produce was not fetching the same high price as the

The following observation from the Decennial Report of the Moral and Material Progress of India 1902-3 to 1911-12 may be compared with the preceding remarks re. the depreciation of investments:—

“Upto 31st. of March, 1922, there was a net profit of £2,105,868 on the investments. £2,958,138 was received as interest and discount, while the securities held had depreciated to the extent of £ 680,700, and losses amounting to £ 150,083 had been incurred on the sale and redemption of the securities. Miscellaneous charges had amounted to £ 18489

On 31st. March, 1916 the securities of the purchase value of £ 17,007,837 were, estimated at the market price of that day at £ 13,218,692. The great depreciation since then would amount to over 10 million sterling, if we take both the Gold Standard and the Paper Currency Reserve together, not taking into account the still greater depreciation due to the decline in the silver value of the pound sterling, which as already quoted, would involve a loss of Rs. 38½ crores.

* 1 “Our conclusion, therefore, is that a stable level of exchange gives the most healthy condition of production and trade, and for the employment of capital, and that larger changes in the exchange value of a currency are an evil, which should be avoided as far as possible; but if a large change has taken place it may be preferable stability at the new level rather than to submit to the further change which is necessary for a return to the old level, especially if the former course shortens the period of uncertainty” (p. 36) The Committee is arguing on erroneous assumptions. It is not the new level that has come to stay, and, therefore, it is not the new rate which would cause the least disturbance. There is no reason to believe that the price of silver, raised phenomenally high by war conditions, will fall as soon as the extra-ordinary circumstances that caused it are over. For the people the old familiar rate, which even now has not been upset for the gold sovereign, would have no terrors, not to mention the loss to the Indian producer in this rise of exchange.

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foreign produce had to be paid for in Indian produce.* It may be admitted that the local prices had been artificially high already sold his crops in advance to the village money-lender, even so, the prices of Indian produce must suffer very much if, the moment the War conditions disappeared, an unreasonable tax was laid on them by the raising of the rupee. And when we say that the Indian exporter suffers by this rise, we mean not the wholesale merchant, who is too shrewd not to avail himself of the "Hedging" facilities offered by his Banker and thus reduce his risk, but the poor country farmer, who has no means of protecting himself, who probably has already sold his crops in advance to the village money-lender, from whom there could be expected no mercy if the prices are kept down by official interference for trade regulation. The saving in the Home Charges would be a material consideration perhaps, if the Indian people had the control of their finances and were able to employ the funds saved by this means in the remission of taxation, or employment in industry. On the other hand the high exchange would mean a bonus of 50 per cent. to the foreign importer, and the consequent discouragement of Indian industry in all matters where India has to face a killing

* We have already quoted this table of prices and Index numbers elsewhere. The Commission's conclusion that "We are led therefore to the conclusion that on economic and social grounds it is not desirable to restore a low level of exchange for the rupee under present conditions. Such a level would augment prices generally and tend to aggravate the dangers of social and economic discontent." is impossible to accept. And they can scarcely command respect when on their own admission they have assumed the stability of a factor which is the least stable: the present high level of world prices. If the price-level in the world market should fall the Commission would have no hesitation in proposing another alteration of exchange. "In that case it would be necessary to consider the problem afresh, and take the measures which might be required by the altered circumstances." (para 51)

competition in her own market. We are therefore, unable S. 14 20 to concur in the views propounded by the majority report touching the theoretical as well as the practical aspect of the effect of high Exchange on a country's trade and industry, and still less can we accept the reasoning under the peculiar circumstances of India.

It follows, then, that the fixing of a ratio between the Standard of currency and the silver coins which must for a long time remain in circulation in this country, and form a respectable proportion of the total volume of currency, is a problem rather of local than of international importance. To allow silver to remain unlimited legal tender at the same time that its price as currency had been artificially fixed and its coins reduced to the position of tokens is an impossible state of things, which, if not corrected, would lead to worse evils than those we have passed through. The Government of India were, if we judge them charitably, led to acquiesce in such an anomalous arrangement by the apprehension of their inability to supply gold coins in exchange for large, indefinite, amounts of silver in circulation at the time of inaugurating a change in the standard, as also because of the *a priori* assumption that the Indian people would prove too conservative peacefully to allow the change to be accomplished. But there was and is no real danger of the Treasury or the Currency Offices being deluged with silver, especially if the Government would provide more suitable alternatives in the form of gold, notes or certificates; or, better still; they would so improve our banking arrangements as to leave this tool of trade and industry in the hands of those who best understand them. The danger of too heavy a demand for silver coins to be changed into gold can be averted by making limited legal tender and thus restrict its use. The amount proposed here as the maximum limit of legal tender in respect

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of silver coins is at once large enough to avoid inconvenience or injustice to the smaller producers and traders, and small enough to led bring about a discontinuance of silver for all larger transactions. Its place should, in our opinion, be taken, not by the costly and wasteful gold currency,—and to this extent we agree with the holders of the Exchange Standard theory that gold is a wasteful medium of exchange for internal purposes,—but by paper convertible in gold, or still better, by improved bank facilities and bank transfers somewhat on the same lines as guided the “Giro” system of payments in Germany before the War. We have elaborated these suggestions more fully later on. Here, we need only observe that, under the scheme proposed, all the advantages of economy, elasticity, and convenience in transport, which are claimed on behalf of the Exchange Standard, will be realised by our suggestion of limiting the legal tender of silver coins and bringing about its gradual disuse for currency purposes. Hence the suggestion to coin no other silver coin but the rupee. * 1 The need for small change would be met by the provision of other token coins of nickel or bronze, as

* 1 In the complete demonetisation of silver here proposed, we differ from the minority report, which warns the Government against the issue of a nickel 8-anna piece, and generally recommends the unlimited legal tender of silver. We have already shown in the body of this essay why we can no longer support the unlimited legal tender of silver coins.

* 2 The Committee of 1919, dropped the fixing of the exchange value of the rupee in terms of sterling and recommended a fixing in gold, owing to the obvious disadvantage of linking our currency with an already depreciated system, and the consequent fluctuations in exchange. The policy followed by the Government of India since the publication of the Report was to give effect to this cardinal recommendation, but after a few months of vain efforts and great speculation the policy had to be abandoned in favour of leaving exchange to adjust itself to the trade conditions. While the policy lasted speculation ran riot, nearly 100 million sterling lying idle in the shape of applications for the Reverse Councils. The net result has been a loss to India of about £35 million

provided below. The possible danger of hoarding gold S. 21 23 will be guarded against by the next section.

It will be observed that we have made no change in the weight or fineness of the rupee. Without expressing an opinion as to what should have been done during the late currency troubles, assuming gold to have been unprocurable and further increase in the notes undesirable, we may say that in matters of currency it will be best to disturb the existing system as little as possible, in order to secure the continuity in business relations. Of course, in a scheme based on radical changes of the kind proposed here, such a defence would hardly be tenable if on any other ground the change in the weight and fineness of the rupee hitherto accepted had been desirable. We do not think, however, that such a change is now desirable with a view to restore stability in our currency system, and we have accordingly left these factors undisturbed. The discontinuance of the smaller silver coins is a measure for the economising of silver on which there seems to be scarcely any difference of opinion.

21 The payment of Government taxes shall be made in gold in respect of the Customs duties and the Income Tax, or in the notes of the Imperial Bank. All other revenues of the Government may be paid in any form of legal tender money.

22 Notwithstanding anything contained in the next foregoing section the Government may, by an order of Governor-General-in-Council, direct the tax-collecting officer to accept payment of government dues in the silver coin of the Indian Empire irrespective of the legal Tender limit, except in the case of the Customs and Income Tax receipts, which shall be paid as directed by the preceding section.

23 The Mint in India shall coin gold into Standard Coin free of charge to the public.

be eventually utilised for the purpose of introducing a Gold Currency in India. But the Government of India were just then faced with heavy Famine Expenditure, and used as such in relieving the Famine distress. It was obviously an unjust use. When the utility of such a reserve in meeting their obligations in England was perceived by the Government, they suffered the balance of the reserve to accumulate in England particularly as the silver, from the coinage of which the profits arose, had to be purchased in gold in England. The normal instinct of a commercial people then asserted itself. The Reserve, which was accumulating rapidly every year, was felt to be too large, and consequently a small portion of it was invested. The interest obtained became too tempting to allow the new policy to be questioned; and hence the ratio of the invested portion to the portion held in gold began to increase alarmingly. The entire reserve was nominally kept in gold in England, but a great portion of it was invested in English securities. The Mackay Committee of 1907-08 even proposed, not without a show of reason, that a part of the reserve may be used to avoid further debt and be used for railway construction. Whatever may be said for this proposal on the ground of economy, it was obviously inconsistent with the original object of the Fund. The crisis of 1907-8 showed the error and the danger of too large a portion being invested, which could not be easily realised in an hour when the exchange needed supporting. The Mackay idea was, therefore, dropped; and the reserve, called now the Gold Standard Reserve, came to be held in gold and gold securities, its object being laid down as the support of exchange in the hour of danger by the Chamberlain Commission 1913-14. * But the War swallowed the whole of the Reserve which had been built up with

during the currency crisis of the Civil War passed more than S. 21 26 one law enforcing payment of Customs dues in gold. And there is similar authority in the suggestions of the Minority Report in the last Currency Committee. There is, indeed, good reason why the Customs dues may be selected for differential treatment. They operate most directly on the foreign exchanges by their effect on the foreign trade of the country, and the consequent changes in the balance of trade. It may be that the same goal might be reached by a change in the fiscal policy; but that may not be suitable in given circumstances while the provision to make Customs and Income Tax dues payable in gold has the most immediate effect in the desired direction.

The closure of the Mint to the coinage of any other metal save gold follows inevitably from our general principle of making silver a legal tender for only limited quantities. So long as silver coins are given artificial values it will be best to prevent their unlimited coinage. The free mint for gold coinage is similarly a corollary from our guiding principle of establishing a real gold standard in this land.

It will be noticed that the successful working of all these suggestions depends on the constitution of proper banking facilities for the mass of the people and not only, as is the case now, for the foreign trader only or for the commercial magnates known as "Shroffs." We shall have, therefore to defer to the later sections dealing with the organisation of the Imperial Bank of India for a further elaboration of the arrangements proposed here. It is also in that connection that we can formulate proposals for the payment of the Home Charges, the maintenance and size of balances, the regulation of exchange and other allied topics.

26 The following nickel coins shall be coined at the Mint for issue under the authority of this Act, viz. An eight-anna piece a four anna piece, a Two-anna piece, and

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a One-Anna piece. No other nickel coins shall be coined at the Mint.

27 The Standard weight of the Eight-Anna piece shall be ninety grains Troy. The Standard weight of the Four-Anna piece shall be Seventy-five grains Troy, and of the Two-Anna piece Sixty grains Troy, The Standard weight of the One-Anna piece shall be Fifty grains Troy.

28 In the making of the nickel coins a Remedy shall be allowed of an amount not exceeding one-fiftieth of the weight.

29 The following Bronze coins shall be coined at the Mint for issue under the authority of this Act, namely,

- (a) A pice or quarter Anna,
- (b) A half-pice or one-eighth of an anna,
- (c) A pie or one-third of a Pice, and.
- (d) A double Pice or one-half of an anna.

30 The Standard weight of the pice shall be 75 grains Troy and the other bronze coins shall be of proportionate weight.

31 The Bronze coins shall be coined from a mixed metal consisting of copper, tin and zink, in the proportions as now obtaining.

32 in the making of the Bronze coins a remedy shall be allowed not exceeding one-fortieth of the weight

33 The Nickel coins, specified in section 26 of this Act, shall be legal tender in payment or on account as follows:—namely,

- (a) The Eight-Anna piece for a sum not exceeding ten rupees at the rate of sixteen annas for the rupee.
- (b) The Four-Anna piece for a sum not exceeding five rupees.

- (c) The Two-Anna piece for a sum not exceeding two S. 34 37 rupees.
- (d) The One-Anna piece for a sum not exceeding one rupee.

34 The bronze coins specified in section 29 of this Act shall be legal tender in payment or on account for a sum not exceeding one rupee at the rate of sixty-four Pice in the rupee or one hundred and ninety-two pies for the rupee.

35 The Governor-General-in-Council may, by notification published in the Gazette of India, direct the coinage and issue of all coins referred to in the several preceding section, and determine the dimensions of and designs for these several coins; Provided that the dimensions and design of the Standard of Currency, the gold sovereign, shall be the same as now prescribed in the United Kingdom, and shall not be capable of alteration except by a resolution of the Legislative Assembly, passed by a three-fourths majority of the members present.

36 Until the Governor-General-in-Council otherwise determines by notification under section 35 of this Act, the Dimensions and designs on the silver Rupee shall be those prescribed for the Government Rupee under the Indian Coinage Act, 1870, and that the same shall be observed by the Mint at the time of the commencement of this Act.

37 For the other coins issued under the authority of this Act the Dimensions and Designs shall be those now in use for the similar coins issued under the Indian Coinage Act of 1870, provided that the dimensions and design on the new nickel coins shall be those now issued under the Acts XVII and XXI of 1835, XXI of 1838, XXII of 1844, XIII of 1868, and the Indian Coinage Act of 1870, and

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declared by those acts to be legal tender, provided that the Governor-General-in-Council may, by proclamation in the Gazette of India, declare those coins to be no legal tender after a specified date, before which they may be received at the Mint, or at the Imperial Bank of India, to be converted into an equal number of the like new coins issued under the authority of this Act.

38 Subject to the provisions of this Act, no changes shall be made in the currency organisation established by and under the authority of this Act by any administrative action of the Governor-General-in-Council.

The only provision in the foregoing series of sections that needs any explanation or comment is the abolition of the Silver Eight-Anna piece, and the substitution in stead of the nickel equivalent. On our guiding basis of a complete demonetisation of silver the reduction of the silver coins of a denomination below the rupee is a measure dictated as much in the interests of economy as of convenience in computation. * It follows from the abolition of the silver half-rupee that we cannot allow the baser substitute to be legal tender to an unlimited amount, or even to the extent to which the rupee is allowed to be legal tender under the authority of this Act.

* 1 It will be obvious to those who have carefully studied the latest Currency Report that the above suggestions are against the recommendations of the Minority Report in this particular instance. "It is unsafe," says Mr. Dalal. "to carry the debasement of the coinage any further by the use of nickel coins. I am of opinion that the Eight-Anna nickel should not be put into circulation at all, and I suggest that instead of it an eight-anna silver piece of reduced fineness should be coined and made unlimited legal tender." With all deference, we cannot accept this view. If there is any debasement of the coinage it is more likely to lurk in such a suggestion as the one now quoted than in the one proposed above, which at least frankly tells the holder that the coin is not worth what it claims to be.

The introduction of ample small change, which it may be S. 26 38 observed in passing, is an essential condition for the success of the kind of banking we have in view, will not be feasible if we depend on the relatively costly white metal for our small change. We have, therefore, abolished all smaller silver coin, permitting, however, those already in circulation to remain legal tender to the extent that coins of similar denomination issued under the authority of this Act are, by this Act, allowed to be legal tender. Provision has also been made for their redemption in case their simultaneous circulation causes confusion. We quite agree to the view, mentioned in the foot-note that the introduction of these coins would cause a want of confidence, since we are convinced of the necessity of small change which we consider will be better met by a liberal, though not excessive, issue of such cheap coins of small denomination than by the multiplication of the currency notes in the form of one and 2½ rupee notes as was done during the war.

A slight change has been introduced in the weight of the nickel coins. The new half-rupee has been made equal in weight to the old one with a view to cause the least difficulty to the masses of the people. The weight of the other nickel coins has been altered with a view to permit of their being made of a size convenient for every day transactions. One of the objections that could be urged against the smaller silver coins hitherto in circulation was their extremely small size and the consequent liability to be lost. * Since in the nickel coinage the question of cost will not be very important, we have allowed a greater weight to facilitate the larger size.

* 1 The half-sovereign in England has been subjected to the same criticism.

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The weight here allowed, it may also be noted, differs slightly from the weight now given to such coins as have been in circulation for the last two or three years; but this is a matter of minor detail, to which, if the principle of securing abundant and cheap supply of small change is accepted, we would attach no great importance. In the conditions of India as we now know them, it is unsafe to trust for small change to the notes of a reduced denomination, and if small change is inaccessible, the best currency system and the best banking accessories would be upset.

No change has been proposed in the denomination, the design and the dimensions of the silver and nickel coins, power being left to the Governor-General-in-Council to fix the design &c. We may note, however, that our age will go down to history as one of gross materialism unrelieved by any sense of Art or Beauty as evidenced by the tools of our materialism. The coins, instead of being the medals or symbols of our history, are merely the most workmanlike tools of commerce from which it is considered advisable to banish all trace of national vanity. The general tenour of our suggestion in this monograph takes too pronounced a materialistic view for us to stand up, with any degree of confidence, as the champions of aestheticism. We, therefore, merely bring out this defect and leave it to others to correct it if possible.

39 The profits resulting from the coinage of silver, nickel and bronze coins shall be applied in the following order Viz

- (a) To the upkeep of the Mint Establishment, S. 39 41
- (b) To the purchase of bullion for inferior coinage, below the Standard of Currency,
- (c) To a Reserve Fund, if the profits are in excess of the Mint Expenditure and the bullion purchases, provided that the Reserve Fund so constituted shall be used to support the Paper Currency in case of an unexpected, heavy demand for conversion.

40 The Reserve Fund mentioned in clause (c) of the Section 39 shall be kept in gold and shall be entrusted to the Imperial Bank of India, for safe-custody on account of the Mint, provided that the said Bank shall have authority to use that Fund to meet a demand for the conversion of notes in the event of the ordinary resources at the disposal of the said Bank being insufficient for the purpose.

41 The Bank shall pay interest at the rate of 5 per cent. per annum for the use of the Fund for the purpose stated in this Act, and during the period that the Fund shall not have been replaced by the Bank.

The use of the profits of coinage was a most important question under the regime of the Gold Exchange Standard. The Fowler Committee had recommended that the profits arising out of the silver coinage, a very considerable amount in those days, should be used to form a reserve to

to any person authorised by the Governor-General-in-Council or by the Local Government to act under this Act, and such person has reason to believe that the coin

(a) has been diminished in weight so as to be more than such percentage below the standard weight as may be prescribed as the limit of reasonable wear, or

(b) has been defaced

he shall, by himself or another cut or break the coin.

43 A person cutting or breaking a coin under the provision of clause (a) of the next preceding section shall observe the following procedure, namely,

(a) If the coin has been diminished in weight so as to be more than such percentage below standard weight as may be prescribed as the limit of reasonable wear, but not more than such further percentage in this behalf, he shall either return the coin, or, if, such persons so requests, shall receive and pay for the coin at such rates as may be prescribed in this behalf; and

(b) If the coin has been diminished in weight so as to be more than such further percentage below standard weight so prescribed as aforesaid, he shall return the pieces to the person tendering the coin, who shall bear the loss caused by such cutting or breaking.

44 A person cutting or breaking a coin under the provision of clause (a) of the next proceeding section shall observe the following procedure, namely.

some difficulty, and turned it almost entirely into securities, S. 39 41 which were rapidly depreciating in value. Whatever, therefore, may be regarded to have been the object of this Reserve, whether support of Exchange or facilitation of gold currency, after the commencement of the War neither was capable of realisation. * During the first year of the peace the exchange troubles mainly arose, in our opinion, owing to the gold resources of India having been dissipated in the zeal to earn interest, not to put any but the most charitable construction on the events of the War period. Wiser by this sad experience we have suggested that the Reserve, if at all one arises under our scheme, and is in excess of the requirements of the Mint, shall be kept *in gold*, and managed by the Imperial Bank

Fowler Committee said: * "The Government should continue to give rupee for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasure Balances."

The Chamberlain Commission observed: "While, therefore, looking beyond the immediate future, we hold that the Government of India ought to be alive to the possibility of the aggregate sterling reserve eventually reaching an unnecessarily high figure, we recommend that the whole profits of the silver coinage, together with any interest accruing from investments or loans made from the gold standard reserve, should for the present continue to be placed to the credit of that reserve and that no diversion, similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows of a much more accurate definition of the calls which the Reserve may have to meet than is at present possible.

S. 39 41 of India for a set purpose stated in the Act. We do not think that there is much chance of any considerable sum accruing owing to the demonetisation of silver. But in case a surplus arises from the coinage operations, the best use for it, in the interests of the nation, would be to regard it as a second line of defence for the Paper Currency. It must also be noted that we have made this an extraordinary, not an ordinary, use of the reserve, against which the Bank would ordinarily issue no notes.

Under our scheme all discussion about the nature, object and use of the Gold Standard Reserve ceases to be profitable. We have definitely accepted the Gold Standard, with a free Gold Mint. The principle contained in section 41 needed an unambiguous declaration in face of the proneness of impecunious financiers to treat all such profits as so much windfall, and we have, therefore, no occasion to be extra solicitous about the maintenance of the Exchange. It is a function of bankers to regulate it under some sound currency system, and we have accordingly made it over to the Bank in no ambiguous terms. The Government may henceforth sleep in peace as far as the Exchange is concerned, they having merely to explain to the bank their requirements in England. It is to be hoped requirements will be progressively reduced, and provide the

necessary funds for the purpose. The Bank will do all the rest for them.

42 Where any gold or silver coin, which has been coined and is issued under the authority of this Act, is tendered

* 2 The following table shows the composition and location of the Gold Standard Reserve from 1901 to date.

31-3 year	In England (in million £)	In India (in million £)					
	securities cash at gold at	Loans	Gold	Silver			
	market p.	short notice	Bank of England				
1901	....	....	....	1·830	1·200	... ..	3·030
1902	3·456	....	....	....	....	....	3·456
1903	3·658	.. ..	....	·01	....	....	3·653
1904	6·041	....	....	·167	....	... ..	6·209
1905	8·367	....	....	·152	....	.. ..	8·539
1906	13·122	....	....	2 6	....	....	12·409
1907	11·964	....	....	·301	·021	4·000	16·2
1908	12·978	1·131	....	....	....	4 000	18 1
1909	7·133	·163	....	.. ..	.. ..	10 586	18·
1910	12·695	3·010	....	.. ..	.. ..	2,534	18 2
1911	15·407	1·477	....	.. ..	....	1,934	18 0
1912	16·087	1 073	....	....	.. ..	1,934	19 0
1913	15·945	1 005	1 620	....	....	4,000	22 7
1914	17·165	025	4·229	022	... ..	4,000	25·2
1915	12·143	·0 3	1 250	7 070	5 239	....	25·7
1916	16·219	5·792	....	·001	4 850	....	26 2
1917	25·406	6 031	....	....	·103	....	31·00
1918	28·453	6 000	....	....	....	....	34 45
1919	29 729	6·016	....	....	....	....	35 75
31-5-1920	26·637	....	.. ..	....	....	....	36·63

N. B. The securities are valued in the last statement at the market price as on 31-3-20, which therefore allows for depreciation. The value in the war years is at purchase price. They cost India nearly 60 crores of rupees but are now worth hardly 30 crores. The whole amount is in England.

S. 48 49

- (a) Reduce the amount of Remedy allowed, except in the case of the Standard of currency, by any of the preceding section in the case of the coins issued by this Act,
- (b) Provide for the guidance of persons authorised to cut or break coins under ss. 43 to 46 of this Act,
- (c) Determine the percentage of diminution in weight below standard weight, not being in any case less than two per cent., which shall be the limit of reasonable wear.
- (d) Prescribe the further percentage referred to in (a) of section 44 and the rates at which payments shall be made in the case of coins falling under the same.

(2) Every such rule shall be published in the Gazette of India, and all such publications shall have effect as if enacted in this Act.

49 No suit or other proceeding shall lie against any person in respect of anything done or intended to be done in good faith, under or in pursuance of the provisions of this Act.

These are all provisions for the detailed operation of the Act, as well as for the safeguard of innocent people taking coins in good faith which have been either too worn out, or have been defaced and thus debarred from currency. Elsewhere in this Act are appended sections which provide for the punishment of counterfeiters &c. No other comment seems necessary on this part of the Act.

- (a) If such person has reason to believe that the coin S. 44 48 has been fraudulently defaced, he shall return the pieces to the person tendering the coin, who shall bear the loss caused by such cutting or breaking;
- (b) If such person has not reason to believe that the coin has been fraudulently defaced, he shall receive and pay for the coin at its nominal value.

45 If a coin is liable to be cut or broken under the provisions of both clauses of section 43 of this Act, the person cutting or breaking the coin shall deal with it,—

- (a) If he has reason to believe that the coin has been fraudulently defaced under clause (a) of section 43, and

- (b) in other cases under section 44 of this Act

46 Where any gold or silver coin, purporting to be coined or issued under the authority of this Act, is tendered to and person authorised by the Governor-General-in-Council, or by a Local Government, to act under this Act, and such person has reason to believe that the coin is counterfeit, he shall, by himself or another, cut or break the coin, and may, at his discretion, either return the pieces to the tenderer who shall bear the loss caused by such cutting or breaking, or receive and pay for the coin according to the value of the bullion contained in it.

47 The Governor-General-in-Council may make rules to carry out the purposes and objects of this Act.

48 In particular, and without prejudice to the generality of the next preceding section, such rules may—

we abolish the rupee altogether. We cannot also dispense with the notes of a denomination under one sovereign, as we take it as the first principle of our proposals that the metallic currency shall be economised as far as it is possible, without depriving the people unduly of the sight of the precious metals. The smallest note, we may say as a matter of general principle, should not be below that of the ordinary, current standard coin in denomination; but in the case of India, the notes are as yet the only means to economise the metallic currency, and we cannot, therefore, fix the denomination of the smallest note so high as would necessitate the use of the standard gold coin for the daily needs. We must wean the people from the uneconomic habit of using too large a stock of the precious metals ordinary currency; but we must do so gently, and leave no loop-hole for a suspicion about the bona fides of the issuing authority. The first step, therefore, in the direction of this much needed reform is to place our currency standard beyond the possibility of equivocation or misinterpretation. Having done so we have next to concert measures to husband the world stock as well as our own of the precious metals. We thus come to the need for a note system which would serve as an unquestioned substitute for money to which the people have hitherto been unduly attached. If we make our note-issue such as would cause doubts or distrust, it would be doomed even before it is put before the public, unless forced upon them by superior might. The only means to accomplish this rather complicated business is to make the note as low as five rupees in value, a note to which the public have been quite accustomed, and so arrange the rest of the higher denominations as to minimise the use of specie by offering more convenient media instead. But the same reasoning which has led us to adopt the five rupee limit as the lowest prevents us from going lower still to economise the

DEFINITIONS.

S 50 52

50 A Currency note shall be a note issued by the Imperial Bank of India under the authority of this Act and expressed in the form of a promise to pay on demand the sum specified in the note to the bearer thereof.

51 Except as provided in this Act no person or corporation in the Indian Empire, other than the Imperial Bank of India, shall draw, accept, or issue any bill of exchange, hundy, promissory note or engagement for the payment of money payable to bearer on demand, or borrow owe or take up any sum or sums of money on the bills hundies or notes payable to bearer on demand of any such person.

Provided that cheques or drafts payable to the bearer on demand or otherwise drawn on bankers shroffs or agents by their customers or constituents in respect of deposits of money in the hands of these bankers shroffs or agents and held by them at the credit and disposal of persons demanding such cheques or drafts.

52 Any person contravening the provisions of the next preceding section, shall, on conviction by a presidency magistrate or a magistrate of the first class, be punishable by a fine equal to the amount of the bill hundi or engagement in respect whereof the offence is committed.

These sections establish the monopoly of the Note issue in the hand of the Imperial Bank of India and remove it once for all from the hands of the Government, the want of experience on whose part has brought upon us the currency troubles of the last years. We think the Bank would be better able to cope with the task, being in daily touch with the business world, of which the money material must be a tool not a master, an aid not a hindrance, a spur, not a drag. The Government officers, the best of them, do not know when to apply what, and how,

S. 50 52

The Bank in sheer self-defence and as though by a sort of instinct must succeed where the official fails by intuitive ignorance, by intelligent incompetence. India would never have a reasonable currency system if it is to be entrusted, however well framed, to red-tape maniacs and departmental routine.

But while entrusting this vital factor for the industrial and commercial life of the country to the care of an institution presumably competent to handle it, we cannot ignore the possibility of a great temptation to a private corporation to make personal profit from public emergency. We have in this country no such centuries of traditions as induce the privately owned Bank of England to act uniformly for the public weal alone. We have not yet developed that fierce patriotic instinct which characterised the German in his fight against time to wrench the commercial lead of the world from England. And we have not the business instinct which makes the decentralised banking system of the United States respond so wonderfully to the call of the centralising spirit of the Federal Reserve Act. We must, therefore, adopt measures not to make the Bank impervious or indifferent to national interests in search of profit for its proprietors. The constitution of the Bank must provide against this. In the present connection, however, we must point out that the monopoly of note-issue vested in the Bank must be made subject to the guarantee that the privilege shall imply an obligation; that the Bank must answer for the ready and immediate convertibility of its notes at the same time that it must provide what the country now most sadly lacks: a cheap, simple, popular, elastic currency. The following sections provide for these.

It must be added that while affording the country the S. 53 form of currency which is most likely under existing conditions to be at once popularly as well as scientifically acceptable, we have not lost sight of banking developments possible in other directions. We have provided for the legality of cheques and drafts on demand payable to be bearer or otherwise to be legal even though no corporation except the Bank authorised by this Act, is allowed to make or issue such notes &c. In another connection we shall provide for other forms of banking activity which go to consummate the same ideal, of improvements in currency to make it cheaper, more acceptable, more elastic.

The form of the note prescribed in section 53 of this Act, is in accordance with the one now prevailing, except that the note, instead of being an obligation of the Government of India, is now proposed to be that of the Imperial Bank of India.

53 The currency notes shall be issued as under, namely, in the denomination of five rupees, ten rupees, twenty rupees, thirty rupees or two pounds, seventy-five rupees or five pounds, ten pounds, twenty pounds, fifty pounds, one hundred pounds and five hundred pounds in such numbers and at such times as may be determined by the Bank aforesaid under a minute of its board of directors to that effect.

We have prescribed new denominations for our currency notes in accordance with the change in the *Standard* proposed in this Act. The notes of smaller denomination, i.e. those below one pound in value, have been expressed in terms of rupees both because it is more convenient to the people to retain the old measure with which they have been familiarised by long usage as also because of want of any other expression for the smaller notes. We cannot import shilling and pence into our system, unless

S. 53 54

of the notes when presented to the issuing authority. Here we must observe that the expression of the lower notes in terms of the rupees is not meant to avoid the fundamental principle of a gold standard and a gold currency, but only a sort of a more convenient expression, in the absence of an equivalent coin in gold familiar to the people. The higher notes have been expressed in gold so as to leave no margin for doubt as to the character of the obligation. We have restricted the highest denomination of the note to £ 500 as we think the much higher notes are not quite so popular, and the object of economising specie might quite as well be served by other and more sure means. The two main alterations in the prevailing system effected by this Act are: the change from silver to gold in the expression of the denomination of the notes, and the discontinuance of the notes of the smallest denomination now current as well as those of the highest.

54 The currency notes shall be payable, when presented to the Imperial Bank for that purpose in gold coins of the Indian empire, provided that notes of small denominations, namely, five rupees and ten rupee notes, may be paid in the lawful silver money of the said empire and within the limits of legal tender as prescribed by this Act.

This section consummates what the first part had commenced. A definite gold currency is impossible to establish if the notes in circulation, the lawful substitute for ordinary money, do not represent the real standard currency of the country, and are not redeemable as by law in the Standard of currency. We feel it as our deliberate conviction that the reason why the note issue in India did not make any great progress before the war was not so much the difficulties attendant upon limited opportunities for conversion owing to the system of circles of issue, nor because of too high a denomination in the note of the lowest value, as the fact that after the closure

use of silver, of the rupee. The people can understand, S. 53 or feel, the need for economising gold, probably because their average transactions do not really need gold; but they will not accept the paper substitute for the rupee without all the suspicions of a people accustomed to being swindled being aroused. The fact that in years of the hardest currency stringency, when government were coining rupees by tens of crores, they could keep in circulation only a little over a crore of this paper substitute for the coin; the fact that these smaller notes were quoted at a discount soon after their issue ranging upto as much as twenty per cent. is alone sufficient to disillusion any one about the impropriety of experimenting with more zeal than discretion with a people under such conditions as now obtain in India. A five-rupee note gets into circulation because in carrying about it offers distinct advantages over five rupee coins which even the poorest intelligence can grasp. But the one-rupee note can claim no such advantage as the paper substitute would be in all probability larger in size and more cumbersome to carry about. The poor man thinks of the note as only a medium of exchange, but the rupee is to him both a medium of exchange and a store of value. The rupees, if accumulated during a boom in exports, can be converted into anklets for his wife; but the notes cannot be used for anything else except being got rid of the soonest possible, or being used to light his hooka, if he can afford the luxury. We must, therefore, drop this war-time expedient as having been unsuitable, not because we would not economise gold as well as silver, but because we do not think this is the best means to attain the goal in view. Better banking, there is the remedy.

In another section we shall provide for the redemption

§ 54 58

truest interests of the people are apt to be frustrated for want of sympathy that springs from knowledge inspiring confidence. We, therefore, think the sooner we strike at its root cause the better. The currency-notes must be made gold obligations beyond the possibility of doubt, or even equivocation. We have accordingly expressed the notes, convenient, in the new form of our currency system, and by this section, made them redeemable as of right in the only form of redemption—gold. Only, in the case of those notes which, by the smallness of their denominations, do not admit of a gold redemption, have we allowed a silver convertibility; but even there the legal tender limit has been strictly enforced.

55 The Imperial Bank of India shall provide through its currency notes of the denominational values prescribed by this act and shall supply the Branch Offices and Agents subordinate to the branch offices with such notes as they need for the purposes of this Act.

56 Every such Note shall bear upon it the name of the town or the branch of the Imperial Bank through which it is issued.

57 Every such note shall be worded so as to be a clear obligation of the said Imperial Bank of India and shall be signed by the General Manager of the Imperial Bank of India or any other officer of the said Bank specially authorised under the constitution of the said Bank to sign on behalf of the said Bank such obligations of said Bank. Such signature may be impressed on the notes by machinery and when so impressed shall be deemed to be valid signature.

58 The General Manager at the Head Office and the branch Managers at the Branch Offices and the Agents in other place specially authorised in that behalf shall issue in the name of and on behalf of the Imperial Bank of India

of the Indian mints to the free coinage of silver, and with S. 54 the continued decline in the gold value of silver side by side with the forced appreciation in the gold value of the rupee, the currency notes, being payable as of right only in the silver coin the bullion contents of which had so considerably depreciated in value, were not as acceptable substitutes for metallic money as they might have been had they represented some more honest form of money. This, the illiterate and the suspicious felt to be nothing but a double-faced treachery; since, being themselves worthless except in respect of what they represented, the attempt to keep them payable as before in gold, in spite of a change of standard for all other purposes, made the notes more than ever distrusted. Government were not bound to give what appeared to be the more valuable currency in exchange either for their currency notes or even for rupees, so that even the double operation of converting notes into rupees and subsequently converting rupees into gold was not accessible to obtain what they thought to be the better currency. There can be no doubt, as the events during war-time showed, that there was great field for the legitimate extension of the paper money in this country. And yet for fifty years this excellent substitute for the cumbersome, primitive mode of settling exchange transactions did not make any considerable headway in the opinion of the people. Forced circulation must not, indeed, be thought of; but without force, without indirect inducements amounting to force, they might still have become more popular if those who had the management of the note-issue had understood the needs and the thoughts of the Indian people. It is the inevitable misfortune of our system of Government that the people are so little understood by their rulers. It is the unavoidable penalty of the rulers to find their best measures, conceived in the

RESERVE AGAINST THE PAPER CURRENCY.

62 The whole amount of the currency notes at any time in circulation shall not exceed the total amount represented by gold coin and bullion and the lawful silver coin of India and the sum expended in the purchase of securities which are held by the Imperial Bank of India at its Head Office and the various branch offices in India as well as the agents of the bank for the purpose of meeting the currency notes as a reserve to provide for the satisfaction and discharge of the said notes. The said notes shall be deemed to have been issued on the credit of the Imperial Bank of India as well as on the security of the said and bullion and silver coin and securities.

63 For the purposes of the next foregoing section currency notes which have not been presented for payment within forty years of the date of their issue shall be deemed not to be in circulation; provided that all notes declared under this section to be not in circulation shall nevertheless be deemed India and shall if subsequently presented for payment be paid from the reserve of the said Bank and be charged to the revenues of the said Bank.

These provisions require the Bank to keep a mixed reserve of coin and securities as the total available resources of the Bank against these obligations. The proportion of coin and securities in the Reserve will be defined by the following section. The permission to keep silver coin of the empire in the reserve is granted with a view to provide the means of exchange for small notes. The exclusion of the notes which have not been presented for circulation for more than forty years is not meant to reduce the liability of the Bank but only for purposes of convenience in account-keeping. The notes thus "superannuated" nevertheless remain an obligation of the Bank and must be paid from the Reserve on demand. But instead of allowing the Reserve to be thus depleted.

currency notes of the denominational values prescribed by this Act in exchange for the amounts thereof in gold coins is issued under this Act or bullion at the rate prescribed by this Act in that behalf, or in rupees to the extent of not more than one hundred rupees at one time. s. 58 60

59 All officers of the Imperial Bank of India entrusted with special functions under the provisions of this Act and authorised to provide sign issue or exchange the currency notes shall be appointed by the directors of the said Bank subject to the approval of the Governor General-in-Council.

60 When a Branch Office of the Imperial Bank or an Agency for the purpose of note issue has been closed the General Manager of the said bank shall under the authority of a resolution of the Board of Directors specially passed for the purpose approved by the Government of India direct by notification in the Gazette of India and such other local papers as may be circulating in the district in question that with effect from the date of the closing of such branch or agency all currency notes issued therefrom shall be deemed to have been issued from such other office as may be specified in such notification.

These sections provide for the manner and the organisation for the issue of the currency notes. The changes in this section are all of minor importance and are such as could be inferred from the general principles already formulated. We have abolished, for example, the circles of issue as established by the present arrangements and substituted instead the branch offices and agencies of the Bank. But there is this important difference between the existing arrangements and those proposed here: that while the circles of issue as now existing are so many hindrances in the way of a free circulation of these notes, under the arrangements outlined here the branches and agencies will only help to add to the popularity of the

S. 54 60

notes. All notes under this Act are universal notes. The system of signing and the responsibility thereunder have been more clearly defined. The issue of notes against silver coin has been limited to hundred rupees, the legal tender limit prescribed for silver coin by this act. The object of allowing silver at all to be a permissible exchange is to allow the notes to displace even silver as far as possible. The Bank is not bound to issue notes in larger quantities except against gold coin or bullion at the rate prescribed. Silver bullion is, of course, not to be accepted in exchange for the notes.

The vast powers granted by these and other sections to the bank and its directorate and management need to be more specifically limited or safeguarded against a possible abuse, and so we have provided in the foregoing sections for the sanction or approval of the Government of India in specified cases. There is, however, a need for a more definite organisation for the supervision and control of the officers of the Bank in this particular department of their activities. It is to be hoped the Act laying down the constitution and organisation of the Bank will make suitable provision for the purpose. But even in this Act, the several provisions relating to paper currency &c will prove unintelligible unless we outline the functions of the Bank and their constitutional limitations. We shall defer that to the third part of this Act.

The Bank, it may be noted as an interesting feature of our proposals, is not divided, like the Bank of England, into two distinct Departments, viz. the Issue Departments, and the Banking Department, each watertight by itself, but is kept a single undivided corporation. There is, we think, nothing to be gained by such a division. The trans-

fers of the available reserves are, if anything, rendered more S. 61 difficult if such a division is enforced, and that would lead to the difficulties of the money market becoming more acute than ever in a period of crisis. But we must not allow the Bank to discourage the use of notes by empowering that institution under the plea of its notes being legal tender, to refuse specie in exchange. The next following section provides for such a contingency.

61 The notes of the Imperial Bank of India shall not be deemed to be legal tender by the said Imperial Bank of India at its head office or any of the branch offices, but the Agents shall be exempted from the operation of this section unless the Agent has agreed to take upon himself on behalf of the bank the liability imposed by this section.

The exemption of the agent in backward country districts is, a measure demanded both by prudence and justice. The credit of the Bank must not be endangered by the weakness or speculations of the Agent. On the other hand, if, for special consideration, the agent specifically undertakes there would be no sense in rendering the note circulation less popular by such exemptions. The Bank, however, must take precautions, at the time of obtaining such an agreement from the Agent as is contemplated by this section, as would minimise the danger of a sudden rush for the conversion of the notes, e.g. the stipulation that the Agent shall keep always at his disposal a specified proportion of Reserve in cash against the liabilities in notes of the Bank current in his district. In this respect the provision of the Federal Reserve Act of the United States are worth comparison.

the Bank is to charge such payments to its current profits. S. 64 It must also be observed that the entire reserve against the Paper currency is to be kept in India, as, under the words of this section, nothing that is not in any of the branches of the Bank in India can be regarded as good Reserve. *We cannot allow the pernicious policy of keeping any portion of the Paper Currency Reserve outside India.*

64 The total amount of the notes at any time in circulation shall not exceed one hundred and fifty crores of rupees in value equivalent to one hundred million pounds... But nevertheless the amount thus fixed by this section may be increased under the authority of a resolution of the Legislative Assembly for any time or an order of the Governor-General-in-Council for a period not exceeding three months.

The limit here set to the total circulation is necessary to prevent undue extension of credit by the Bank. In moments of special emergency, however, the section permits an increase of the total issue by a resolution of the Legislative Assembly, or, if that body is not in session, by an order in Council of the Governor General. In the last mentioned instance the increase in the issue will be good only for three months at most, as it is clearly an extraordinary measure for an extraordinary crisis which would not last for more than three months. The Legislative Assembly, if so minded, can get an amending Act passed permanently adding to the total volume of the circulation. But if the circulation is increased temporarily the Bank, on the analogy of the Reich Bank of Germany, ought to be made to pay for the privilege, and permitted to vary its character of the Reserve against its note liabilities so far as to admit under the heading of securities good trade Bills and other

This is an attempt to connect genuine business transactions with the Note Currency, allowing of an increase in the total issue in response to a genuine trade demand. If the demand is only temporary the Bank will, normally speaking, not add to its circulation and liabilities, by asking for an increase in the total permissible circulation unless it can pay the tax on the excess as required. This would, in other words, be equivalent to the common device of the Bank of England, to meet a demand for gold by raising its rate of discount. The Indian Bank will not be for some time to come at any rate under the influence of any traditions of a low rate of discount, nor do we think it expedient at this stage to limit the discretion of the directorate of the Bank by prescribing a maximum rate by law. But the ordinary competition for business by the banks among themselves will not allow the Imperial Bank recklessly to keep a high rate. If anything its rate will be appreciably low. It is only when the Bank has good business coming to it and is yet unable to accept it owing to the limitation on its note-issue that it would venture to ask permission for an increased issue and undertake to pay the required tax on the increase. The Bank may avoid the payment of this excess tax if it does not send out the increase into circulation but holds the excess itself and gives out other forms of money instead. This last contingency, however, though possible, will be provided against by the requirements of a minimum metallic reserve to be held

S. 65 66 mercantile securities. This is provided for by the next section,

65 In the event of the circulation of the total number of notes of all denominations being temporarily increased in the manner provided for in the next preceeding section the bank shall pay a tax of five per cent. per annum on the average excess of circulation during the period that the operation of this Act was in abeyance as regards the total amount of notes allowed by this Act to be at any time in circulation.

66 The Imperial Bank of India may during the period of temporary increase in the circulation of their notes hold the required reserve under this Act partly in Gold bullion and coin and silver coin partly in securities different from those prescribed by this Act. Such other securities to be Bankers' acceptances or Good Trade Bills drawn against actual commercial transactions and secured by the goods or value forming the subject matter of such transactions and having at least two well known signatures by way of endorsement one of which shall be that of a Bank and having not more than sixty days to run. The Imperial Bank of India shall not be permitted to regard as good bills or securities under this section any advances made by itself on personal security or its customer or on the security of immovable property whether Urban or Agricultural or the stock in trade or any other similar security. But nevertheless it may consider as good securities within the meaning of this section any advances by a banker or shroff who is himself a client of the Imperial Bank of India and rediscounted with the Bank aforesaid notwithstanding the fact tht the such banker or shroff has himself advanced to his client on any of the securities considered insufficient or ineligible for advances by the Imperial Bank of India under the provisions of this section and for the purpose of securing a temporary increase in the note issue.

S. 67

by the Bank in accordance with the subsequent section. The later portion is based on the model of the similar provision in the Federal Reserve Act * 1.

67 The Reserve prescribed by this Act and held by the Imperial Bank of India for the security of the total note circulation shall consist in the manner provided below, namely, not less than seventy-five crores of rupees, or half the total amount of the authorised circulation, shall be in gold coin or bullion and the lawful silver money of the country, and the other half or seventy-five crores shall be in securities as prescribed in the following sections, provided that the amount of silver money held in the Reserve under the authority of this Act shall not exceed forty per cent, of the total reserve held in specie or such other amount as may be equal to the

* 1 ss. 13 to 16 of the Federal Reserve Act as amended are to the point. Thus s. 16 says (Para 2) "The collateral security thus offered shall be notes, drafts, bills of exchange endorsed by member Bank of any Federal Reserve District, and purchased under the provisions of s. 14 of this Act, or banker's acceptances purchased under the provisions of the said s. 14 or gold or gold certificates; but in no event shall such collateral security, whether gold, gold certificates or eligible paper be less than the amount of the Federal Reserve Notes applied for." And, again, the same section continues "Every Federal Reserve Bank shall maintain Reserves in gold or lawful money of not less than thirty-five per cent. against its Federal Reserve Notes actually in circulation." The commercial paper here declared eligible as collateral against notes is thus defined by s. 13. "Any member Bank may accept drafts or bills of exchange drawn upon it having no more than six months' right to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by warehouse receipts or other such document conveying or securing title covering readily marketable staple." It may be interesting to note that this great piece of banking reform excludes loans on personal credit and loans for a longer time than 6 months from the class of eligible paper.

total value of notes of denominations below two sovereigns as S. 68 may at any time be in circulation whichever of the two is the smaller amount.

If at any time the actual amount of notes in circulation is below the authorised amount the reserve to be held in specie as provided by section 68 para one must be calculated in the proportion prescribed by the said para of this section and not fixed at seventy-five crores of rupees.

68 The securities to be held in the Reserve against the total amount of notes in circulation under the provisions of the next preceding section shall be the securities of the Government of India payable in the Indian currency in India to the extent of not less than fifty per cent. of the total reserve held in the form of securities provided that the loans issued by Local Governments, Municipalities, Port Trusts and other public Corporations working under the authority of the Government of India shall be regarded as and included in the securities described as the securities of the Government of India... The remaining securities may consist of interest bearing bills bonds drafts issued by the Railway Companies Tramway Companies and other semi public corporations not connected with the Government of India and Bills of Exchange drafts hundies and other good commercial paper having not more than six months to run and arising out of genuine commercial transactions involving the import or export of goods or the domestic shipment of goods with documents conveying or securing title attached and bearing at least two well known signatures one of which must be that of a recognised Banker Shroff himself a client of The Imperial Bank of India provided that the commercial paper declared to be eligible as security against the note issue of the Imperial Bank of India shall be taken in the books of the Bank at the actual purchase price and no more.

and as the Bank would presumably have to make considerable remittances on account of the Government of India by way of meeting the Home Charges it may quite possibly be advantageous for the Bank to have such Bills which it could realise in England. The Bank would come to do a good deal of Exchange business in this way and would probably finance a respectable proportion of the foreign trade of India. With a branch in England and the principal foreign countries with which India may have trade dealings the Bank would be able to obtain practical monopoly of the foreign trade finance. We see no reason why the Imperial Bank of India should be kept out of the Exchange business, since (a) Exchange business ought to lose all its terrors under a stable currency system, (b) since the Government of India would lose the greatest advantage of having such a Bank if it does its unavoidable exchange business itself instead of doing it free of charge through the Bank, (c) and since the Bank doing Government exchange business might as well do private financing in matters of foreign trade particularly as such a combination in one hand would admit of a greater utilisation of all resources, public as well as private, for the facilities of trade. It would, however, be a measure of the prudence of the managers of this institution in so far as they so restrict the foreign holdings of the Bank as not to make the Bank unnecessarily susceptible to the world crises. We would suggest that the holdings in foreign paper should not exceed at any time 20 per cent. of the invested reserve.

This measure brings the Paper Currency into direct and immediate contact with the trade needs of the country. The Bank may also be entrusted with the

S. 68.

This provision of the Reserve introduces two great changes of a radical kind in the existing organisation. (1) Instead of the fiduciary Reserve being a fixed quantity which is judged to represent minimum requirements of the public in the matter of paper currency, and, therefore, the notes covered by that portion most unlikely to be ever presented for conversion into specie, we have fixed it as a proportion of the total circulation, thereby allowing the issuing authority a direct interest in the increase of the note issue, as the interest derived from these securities shall, under the provision of the next section, be regarded ordinarily as the normal income of the Bank. This principle as well as the proportion of the fiduciary Reserve is in accordance with the Babington-Smith recommendations. The action taken by the Government of India in this behalf has already been noted. This is a valuable concession, representing a gift of Rs. 4 crores per annum nearly to the Bank, and we are not sure if a wise financier would not make the Bank share its adventitious gain from the monopoly of the public credit vested with the government. The securities, however, must be the securities of the Government of India or of the corporations working under the authority of the government of India, or by their very nature regarded as bodies with a semi-public character.* This will render it impossible for the Bank to invest any part of this Reserve in foreign securities. (2) But the Bank may hold a fair proportion in the best kind of foreign security viz. the trade bill of not more than six months duration and representing a genuine deal in goods. No object will be gained in preventing the Bank from having a part of its Paper Reserve Funds invested in such foreign securities, as there is really no danger in such holdings,

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purchase of bullion on account of the Government and in that case its operations will control and regulate the entire currency system.

69 The interest and other income accruing from the securities held as reserve against the Note-issue may be considered as the normal income of the Bank and be available for the purpose of declaring a dividend, which shall at no time exceed ten per cent. on the total paid up capital of the Bank.

70 The Bank shall be exempt from the payment of all stamp and other duties in respect of the note issue in exchange for a lump sum payment of rupees fifteen lakhs a year provided that this exemption will not apply to the income tax or tax on the profits of the Bank or any other tax by whatever name known which falls upon the recurring income of the Bank but shall include the tax on immovable property owned or possessed by the Bank.

71 The securities held in reserve against the notes in circulation shall be held at the head office of the Bank aforesaid. These securities may at any time be sold in open market or converted or redeemed or renewed by the general manager under the authority of a resolution of the board of directors specifically passed in that behalf and the proceeds of the securities thus sold shall be employed as directed by the resolution aforesaid.

The purpose of these sections does not need comment at any length. The limitation of the dividend to ten per cent. at most is a device to prevent the Bank from developing unwelcome tendencies of profit-earning at the expense of public benefit. If the Bank gets more business as the result of these provision, and it is expected that it will, there is no reason why the benefit of this increased profit should be enjoyed exclusively by the proprietors of

the Bank. Even though a considerable portion of the capital of the Bank may have been provided by them a not inconsiderable portion of the total capital of the bank would be provided by the Government. The general trading public cannot appreciate the advantage gained by a reduction in taxation due to the Government obtaining such additional income from its trading and industrial ventures. They must get the advantage to which they are fairly entitled in the shape of a low rate of discount and ample capital facilities, which the various concessions implied in these sections would quite easily place at the disposal of the Bank.

The exemption from Stamp Duties is a matter of administrative convenience which is to a great extent off-set by the obligation of an annual lump sum payment. The retention of property and income taxes is to be justified on grounds of public policy. A corporation of such extra-ordinary privileges cannot but be made to share the tax-burdens of the general public at the same rate as the ordinary private trader or banker. Still these provisions would mean substantial concessions to the Bank. It must be added that the tax on excess issue beyond the authorised amount is in addition to the ordinary income tax. Finally the holding of the securities in India at the head office must be construed to apply only to the securities which by their nature are capable of such holding, and not to such other securities as the trade bills which must necessarily be held in the branches whether in India or outside India.

72 An account showing the amount of interest or profit accruing on the securities held as part of the reserve under this act and the expenses and charges incidental thereto shall be published annually by the general manager of the Bank and be placed before the Legislative Assembly of the Indian empire.

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73 A depreciation fund of five per cent. of the total reserve held in the shape of securities shall be formed out of the total income from these securities and shall be set apart for the purpose of making good any loss to the reserve sustained by the depreciation of any security. No credit shall be allowed to be taken by the Bank for any appreciation of Security.

The provision to avoid loss by a sudden depreciation of the securities in the Reserve will ordinarily apply to the Government securities yielding a fixed interest, but may quite possibly be of practical importance in the case of commercial securities in the event of a crisis and wide spread failures. The provision of a fixed rate of depreciation may not seem quite advisable, and it may perhaps be better to leave the actual percentage to be thus set aside to the discretion of the Directorate of the Bank. Credit need not be allowed for appreciation, which, however, if of a permanent kind, may strengthen the position of the Bank indirectly. Besides, the provision regarding the right to dispose of the securities at a favourable moment will enable the Bank to reap the advantage from a reasonably sound appreciation of any permanent security. It is much more likely, however, that in the event of a permanent appreciation of its credit Government may seek to convert their obligations of a higher rate of interest into those carrying a lower one, so that there would be no real advantage to the Bank. In any case, it is to be most sincerely hoped that the management of the Bank, in the exercise of the wide powers entrusted to them for the benefit of the public shall not allow themselves to be tempted and be led into speculation in these securities which would be of the utmost danger to the commonweal. Perhaps it would not be unreasonable for the Government of India to

S. 74 76 74 An Abstract of the accounts of the Paper Currency operations of the Imperial Bank shall be made and published in the Gazette of India four times a month showing:—

- (1) The total amount of the Currency notes in circulation.
- (2) The amount of coin and bullion reserve distinguishing gold from silver and coin from bullion in the case of gold and showing separately any amount not actually in the hands of the Bank but in transit and considered as part of the reserve.
- (3) The nominal value of the price paid for and the market price of the securities held as part of the reserve showing separately securities of commercial kind and distinguishing between securities of this latter description held in India and those held outside India as also those held by the head office and those in the possession of the branch offices.

75 Notes of the Imperial Bank of India in the hands of the head offices or any of the branch offices of the said Bank shall not be considered as lawful money for the purpose of reserve required to be held against the notes in circulation under the Provisions of this Act.

76. Every Branch Office and every Agent, with the exception of the chief branch office in a Province or in a foreign country shall immediately return to the head office of the Bank aforesaid all notes issued by the said branch against eligible commercial paper and returned to the branch on the maturity of the discounted paper and its payment by the party concerned in lawful money. The head office shall either destroy the notes so returned and against which there is no reserve or the portion of the reserve covering these notes has automatically ceased to exist or reissue them against

stipulate with the Bank that no portion of its securities S. 73 held by the Bank as Reserve against the note shall be sold except with the consent of the Government, or that at no time the Bank will hold less than a fixed proportion or amount of the Reserve in the securities of the Government of India. This Fund for depreciation of securities must, it may be added, be held apart from the ordinary reserve of the Bank and be treated separately. The Section is silent as to the form in which it should be held. but it may be said that it would be against the nature and object of the provision if this special fund is also held in the form of securities liable to depreciation common in this country and so well known to our bankers. This portion of the Act is based on the similar provisions of the Federal Reserve Act, though of course owing to a radical difference in organisation the language cannot be identical. The obligation on the note being an obligation of the bank and not of the government, as is the case in the Federal Reserve Notes of the U.S.A., we cannot of course include all the provisions for the withdrawal of the collateral for the notes in exchange for the notes, or the creation of a special redemption fund, or the penalties on the member banks for cashing other banks' notes &c. But we think some such provision for ensuring contraction of the notes in times of easy money ought to be made under the well-known conditions of alternating, seasonal fluctuations in the demand for currency. There would involved indeed an increased expenditure to the Bank if the notes are to be destroyed when returned or not wanted but perhaps that expense would not have been incurred in vain if this arrangement helps, as we believe it will, to stabilise prices in the country. Besides, as the plates for the notes will be kept ready engraved there would be no appreciable delay in the supply of new notes when wanted by the public.

acceptable money or security. A margin of five per cent. S 77:78 of the total notes issued to a branch and circulated through that branch may be allowed to be held by that branch as till money for the branch.

77 No branch office shall keep or exchange for the current coin of the Indian Empire any notes of the Imperial Bank of India which have not been issued to that branch in the first instance and put into circulation through its instrumentality. Failure to comply with this provision shall render the branch manager liable to a fine not exceeding five hundred rupees for the first offence and one thousand rupees for each later offence of this description.

These sections are an attempt to bring about an automatic contraction of the note issue as and when the need for abundant currency falls. It is made the interest of the agents and branch managers not to keep notes of a foreign circle in their hands longer than they can help. And as the notes are not allowed to be regarded as portion of the reserve, there is no reason why the Bank should continue to keep them in circulation when no longer wanted. In normal times this provision would be not very important in practice, but may be quite useful in periods of trade activity and depression.

78 Any one who possess without lawful excuse the plate or dies from which the notes of the Imperial Bank of India are printed or is found to be in possession of the stamp of the signature to be impressed on each of the notes issued by the Imperial Bank of India without lawful excuse or in any way is prosecuted before a presidency magistrate or a Magistrate of the first class for the offence of forging counterfeiting or uttering a forged or counterfeited note knowing it to be so forged or counterfeited or aids or abets any one in counterfeiting or uttering a forged or

compulsory increase in branches the classes which are now shut out of banking facilities shall avail themselves of such facilities, and the rediscount business would add altogether to the strength of the banking world in general.

We need scarcely consider all the clamour of interested parties like the present exchange Banks who apprehend a serious loss of business on the institution of such a corporation. The Indian Government have given no guarantees of permanently conducting their own banking business themselves and thus leaving the entire finance of the foreign trade of India to these Banks. There is, therefore, no reason to grant special concessions to these private corporations, who are mostly foreign bodies, and whose interests do not necessarily coincide with Indian interests. As a matter of fact there is every reason to hope that these banks would be the gainers by the introduction of a system of re-discount by the Imperial Bank which would thus have its business only through the mediation of the existing Banks.

We are not, however, able to support entirely the creation of an Imperial Bank by the amalgamation of the existing Presidency Banks. The Presidency Banks are amalgamated without any invitation to the outside Indian capital, without any adequate guard as to the purely Indian interests as opposed to foreign interests, without any proper provision for the supervision and examination by the Government; and thereby valuable privileges have been practically thrown away by the Government of India, without the country really deriving any of the advantages which alone can excuse or justify the creation of such a corporation of private individuals. For our own part we would

S. 78 counterfeited note shall on conviction be liable to a fine of not exceeding five thousand rupees for the first offence or imprisonment for not more than a term of two years with hard labour or both at the discretion of the magistrate trying the case. Any one found guilty of any of the offences detailed above more than once shall on conviction be liable to a sentence of transportation for life.

These provisions are the ordinary safeguards against the criminal tendencies of mankind. In India after nearly sixty years of experimenting with a note-issue there has been found very little reason to make the law against forgers &c. a savage one awarding draconic punishment. Besides the fear of punishment hardly deters the criminal. He thinks never to be caught. The best way to provide against this danger would be not so much by making the law rigorous, though of course that cannot be lost sight of; but by taking the greatest possible precautions for the safe-keeping of the instruments for the printing and executing of these notes. The paper, the design the numbering, the signature shall all be so arranged as to leave the least possible room for such offences or temptation. Possibly the very printing of these notes may have to be done in the presence of and on the premises of the Imperial Bank authorities in stead of at the Government Press. We would insist on the notes being made and executed in India instead, as is the present practice, of being sent out from England.

THE IMPERIAL BANK OF INDIA RELATION TO
THE NOTE ISSUE AND CURRENCY
ORGANISATION OF INDIA.

Preliminary.

The necessity for some sort of Central Bank for India has long been felt by the Government of India and representations have been addressed by them from time to time to the Secretary of State for the purpose. Apart from the advantages of an elastic currency system managed for the benefit of the trading classes by a body best calculated to understand trade needs, Government would for their own sake find substantial advantages by the creation of a Central Bank. They have large remittance transactions; they are frequent borrowers; they have considerable balances which cause serious injury to trade when the money making up these balances is withdrawn from the market; they have to manage the Paper Currency and all the Reserves which arise out of the currency arrangements now in force. With a central state Bank Government would divest themselves of all these miscellaneous financial functions for which their officers have neither the training nor the experience enough to be successful. To the business world of India such a bank would procure the temporary use of government balances and reserves, the reduction in the present very wide range of fluctuations in the discount rate, the avoidance of periodical exchange complications. With a

* See for a fuller treatment of this subject Prof. J. M. Keynes' annexe to the Report of the Chamberlain Commission on the subject of a central state bank for India,

for some good inducement to competent men to accept service under the Bank even though it may not be quite so well paid as in similar private institutions. The capital to be provided by the State is only one out of several possible alternatives, but we think the principle must be accepted that some portion of the bank's capital must be provided from the public purse. The activities of the Bank, other than commercial financing, are not specifically provided for in these sections, as the whole of this Act is drafted primarily with an eye to Currency Reform. This does not mean that we are indifferent to the work of such an institution as an agricultural Bank or an International Bank. These matters are discussed in the part dealing with Banks and Banking.

80 The functions of the Bank aforesaid shall include, subject to the provisions of the Bank Charter Act, the following namely,

- (1) To discount Indian rupee trade bills maturing within the maximum period of six months subject to a minimum rate fixed from time to time by the board of directors of the Bank.
- (2) To rediscount gold trade bills bearing the endorsement of another Bank or shroff or one of the clients of the Imperial Bank itself subject to a minimum rate fixed for the purpose by the directors of the Bank from week to week.
- (3) To make interest bearing loans subject to the condition of a minimum rate of interest prescribed from time to time by the directors aforesaid on such security as may be permitted by the Bank Act.
- (4) To buy and sell gold bullion in India or outside India subject to the provisions of this Act and of the Bank Charter Act.
- (5) To accept deposits on interest subject to a minimum day to day balance being maintained by the depositor and allow interest for the same at a rate prescribed by the directors aforesaid and to accept deposits without interest upto any amount

suggest that an Imperial Bank, being directly S. 79
 a state Bank, should be invested with all the
 banking business done on behalf of the State,
 and entrusted with the management of the balances, re-
 serves and the paper currency on behalf of the State. The
 State would then derive substantial profit and yet afford
 all the security, all the facility that is now lacking in the
 banking organisation of this country. But perhaps under
 the existing circumstances of India, when the Government
 is neither popular in constitution nor certain of public
 sympathy and confidence, it would be not unwise to have
 a *via media* of a private corporation, in which the state
 should be substantially interested as a capitalist, with the
 consequent rights of examination, supervision, and control
 and direction as much in the interests of the state *qua* part
 proprietor as in the interest of the general public *qua*
 guardian of public interest. In the section of this work
 dealing with Banks and Banking, the constitution of the
 Imperial Bank of India created in 1920 is more fully dis-
 cussed and suggestions made for adding to its activities.

In the following sections relating to the organisation of
 the Imperial Bank and the conduct of the note-issue
 and the management of public remittances, reserves and
 balances we shall assume a constitution of the kind here
 outlined.

79 The constitution of the Imperial Bank of India its
 direction and Management shall be provided by an Imperial
 Bank Charter Act to be specially passed by the Legislative
 Assembly in India in that behalf subject to the following
 General Principles namely.

- (1) The Bank aforesaid if a private corporation
 whose capital is required to be subscribed to by
 private individuals shall allot fully paid shares
 to the state of not less than one third of the total
 authorised capital of the Bank in exchange for
 the bullion and coin reserve now held by the
 Government of India against the notes now in

circulation or such other securities of a like nominal value as may be prescribed by a resolution of the Legislative Assembly specially passed in that behalf.

- (2) The Government of India shall be entitled in virtue of their proprietorship in the Bank to nominate one third of the directors of the Bank aforesaid either from among the officers of the finance Department of the Government of India or the members of the Legislative Assembly and the council of state or any other non official persons or bodies at the discretion of the Government of India. And these directors appointed by the Government of India shall vote in accordance with their judgment or the directions of the Government of India specially issued to them on a particular question coming before the Bank's Directorate for discussion and disposal.
- (3) That the Finance member of the Council of the Government of India shall be *ex-officio* president of the board of directors as well as of such committees of the board as may be appointed from time to time to deal with the question of the increase of note issue, purchase of bullion, management of new loans of the Government of India, manipulation of the invested reserve against the Paper Currency, and all such other question directly affecting the public at large. In such matters the president of the board or the committee shall have a casting vote in addition to the ordinary vote as a member and shall have the right to postpone the decision by a minute of dissent pending the orders of the Government of India or a resolution of the Legislative Assembly on the point involved. In matters not directly

affecting the public interest the president of the S. 79 board shall have only a casting vote in the event of members being equally divided.

- (4) All officers of the Bank aforesaid in any way concerned with the maintenance or management of the note issue and circulation shall be appointed by the Directorate of the Bank subject to the sanction of the Government of India. Officers thus appointed shall have all the rights obligations privileges and duties of public servants in general and shall be subject to the Government Service Regulations.

These are all provisions inserted to guarantee the conduct of the Bank mainly in public interest even though the corporation is largely owned by the private capitalists. The Charter Act should, we think, make some provision for maximum subscription that can be made by individual or corporation to the capital of the Bank in order not to give a preponderant voice to any single individual in the conduct of the Bank. It should also provide against the maximum holding of the stock of the bank by a single individual firm or company so as to guard against the Bank becoming a prey to a group of financiers. We have, however, provided for a power of veto in the hands of the official President of the Bank to meet exceptional emergencies where the interest of the bank may lie one way and that of the public another. For a precedent for such powers we must refer to the constitution of the Reich Bank of Germany where the Imperial Chancellor is made the ex-officio president of the Bank Directorate, and is given similar powers. The position and privileges of public servants accorded to the selected officers in the Bank is due to the character of their functions as much as to the need

in the rates would represent the gain to the Imperial Bank.* 1.

86 The Imperial Bank of India shall help to economise the use of Metallic currency in India by introducing all devices Calculated to and in the attainment of this end.

Says Mr. Keynes in his annexe on a State Bank for India to the Report of the Chamberlain Commission:—

“There can be no question that the method outlined above is the most perfect method of effecting remittance from the purely financial point of view, and also that it will be more easy of favourable explanation to the public for the following reasons. At present the train of events is a very complicated one. The exchange Banks buy sterling bills in India, which they bring to London and re-discount, in part, in the London money-market. With the proceeds of rediscounting they buy Council drafts or transfers from the Secretary of State which, when encashed in India, replace the funds which the Banks have paid out in originally buying the sterling bills. The Secretary of State lends the proceeds of selling councils, until such time as he has need of them for his disbursements, either to the Exchange Banks themselves or to the other constituents of the London money-market, by whom the money is largely used for rediscounting bills either for the Indian exchange banks or for similar institutions working in other countries. If, on the other hand, as is proposed above the State Bank were to rediscount sterling bills for the exchange banks in India and hold the bills until the money was actually wanted by the Secretary of State, the whole (or nearly the whole) of the floating sterling resources would be directly employed in the assistance of India's foreign trade, instead of assisting it in a very slight and indirect way through the general help given to the London money market.”

Our proposals slightly differ from those of Mr. Keynes inasmuch as we have not precluded the London branch from receiving deposits in London and doing the ordinary banking business in London. We can nevertheless claim the same advantages for the proposals given in the foregoing section: viz. use of all floating sterling resources for the benefit of Indian foreign trade, better sterling interest on the funds in the possession of the London branch and reduced risk. (p. 75 et seq. of the Report.)

liable to be withdrawn at not less than one week's S. 80 81 notice or on demand as may have been specifically agreed upon between the Bank management and the depositor.

- (6) To receive valuable goods for safe keeping with or without a charge as prescribed by the directors from time to time.

These functions are amongst those directly bearing upon the currency system. They do not exclude other functions such as serving as Government Banker, receiving and paying monies on account or upon the orders of competent authority from the Government, managing Government debt and loans newly issued, holding Government balances and reserves and discharging all other functions that a state bank may be expected to discharge on behalf of the Government. It will be for the Bank Charter Act defining the constitution and functions for the Bank more minutely to lay down these and various other analogous provisions in full detail. In this Act it would be out of place to embody all such provisions; but we may indicate such as are indispensable for the proper working of the system here outlined. We might have included more specifically in the foregoing section the provision about the management of the Currency, but it follows from the provisions in second part of this Act and need not be repeated.

81 Subject to the provisions of the Bank Charter Act the Bank aforesaid shall open branches as follows:—

- (1) Wherever the necessity for the issue of currency notes requires a branch i.e. in every town in India with a population of twenty thousand inhabitants or more or in every town which is the head quarters of district administration or

the capital of a province or native state or the junction of two Railway lines or more.

- (2) And shall have accredited agents appointed under the authority of the board of directors of the Bank in every village which is the head quarters of a Sub-divisional office or the place with a separate post office and telegraph office of its own and is not included in any of the classes mentioned in para one of this section.

82 The branch managers shall be appointed by the directors of the Bank subject to the approval of the Government of India.

83 The branches and agents shall forward to the head office every day by telegraph after business hours an abstract account of the balance in hand in coin or bullion the amount of notes held in hand or issued through the branch and such other information as may relate to the note system of the Imperial Bank.

Under these provisions there would be instituted nearly five hundred branches and agencies, possibly many more, and will thus afford India a proper banking system. The country parts of India are even now practically without any banking facilities with the result that the usurious moneylender thrives on the ignorance or misfortune of the agriculturist and the artisan. And even in the towns the available banking facilities are confined only to the richer and more advanced classes. No reform of banking in India will be considered complete which omits to provide for this crying defect of our financial organisation, and we cannot, therefore, be quite content to accept the proposal in the Presidency Bank Amalgamation Act of a hundred branches for the Imperial Bank of India. If the Bank is to do

all the Government business and at the same time afford all S. 84 the banking facilities to the public at large there must be a more ambitious programme of branch extension than has so far been contemplated; and if the expenses involved in having independent branches in out of the way places are not likely to be met from the business obtainable,—the ideal of self-sufficiency must be held before every branch manager,—there would be the Agencies which would within limits afford the same facilities as a branch would. Possibly the Bank Charter Act would make a distinction between the relative status of different branches, e.g. provisional chief branches, or first and second class branches but we are not here concerned with such distinctions. The provision for submission of an account of daily operations relating to the Currency notes is within the province of this Act and may be necessary to keep the directors informed of the state of the Bank business in every part of the empire. The foreign branches are necessary for exchange business which we trust will be done by the Bank in ever growing proportions, and the number of such branches will not be needlessly restricted. The duties and functions of such branches will have to be specially provided for by the Charter Act, and we here add some specimen of the provisions, which in our opinion ought to be included in Charter Act.

84 There shall be established a branch of the Imperial Bank in London which shall be regarded as being the head office of all the branches the Imperial Bank of India may deem fit to open in the various European countries for offering exchange facilities to the Indian trader with those countries. Such foreign branches shall be free to do the business ordinarily transacted by the head office and branches of the Bank in India and subject to the provisions of this Act. In particular the London branch shall transact the following Business, namely:—

S 84 85

- (1) Selling drafts on India either by way of rediscount from other bankers or directly from the customers of the London branch or from the public at large at a rate announced from time to time by the London branch as the minimum rate for the purpose.
- (2) The rediscount of sterling bills if necessary with the Bank of England.
- (3) Receiving deposits from its customers in England at the current rate of interest for such deposits in England subject to such conditions of reserve as may be prescribed by the board of Directors in India and the rules made under the provisions of the Charter Act or this Act.
- (4) Borrowing for short periods from the Bank of England or other joint stock banks in England and lending money for short term on such securities as may have been prescribed by the board of directors subject to the provisions of this or the Charter Act..
- (5) The floatation of sterling loans on behalf of the Government of India in the name of the Secretary of State for India in Council.
- (6) The management of the balances of the Government of India in England in addition to such other business such as buying and selling of gold or silver bullion as may be prescribed for the Bank in India and may be specially ordered by the Directors to be carried out by the London branch.

85 The London and all other foreign branches of the Bank aforesaid shall be governed under the provisions of this Act by a Manager appointed by the Directors in India aided by a Council of three members selected from among

the most important customers of the foreign branch or its S. 85 officers including the chief accountant of the branch the secretary if any and the head cashier.

For a long time to come the London branch would be the most important foreign branch of the Bank, and it would, therefore be necessary to lay down its functions and constitution more minutely than would be necessary in the case of other foreign branches, though the New York branch, if one is opened, may in near future prove quite as important. The branch must be administered under the provisions of this and the Bank Charter Act by the manager, who ought to have some assistance in deciding more important questions of policy in an emergency when it would not be possible to obtain instructions from the head office in India.

The price which the Imperial Bank would pay in India for sterling bills will to a large extent be governed by the Bank rate in England coupled with the rate of exchange between India and England, and not be the same as the local rate for Indian bills. The Bank in India by offering concessions upon the competitive market rate for such bills will be in a position to induce the exchange and other banks to re-discount their sterling paper with the Imperial Bank. The same may be done with regard to the trade bills on or from other countries by means of branches in those countries. The Imperial Bank will not be the loser since the Bank rate in England is often lower than the Indian rate for rupee bills particularly in busy seasons, and the difference

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Europe some such means to overcome the ages old fondness for specie in all daily transactions. To the Bank such a business would mean considerable economy in the use of the money material and great latitude in the matter of its reserve. By merely making the necessary entries in the books of the branches affected the Bank could do the remittance business for India almost entirely, the extent of which we cannot estimate from any data of the post office remittances to-day though even that is not inconsiderable. Besides saving the trouble of counting and testing coin and avoiding the danger of handling many small sums of money as well as the loss from interest during transit, the Bank will indirectly secure the great advantage of having a guaranteed minimum of balances being always maintained with it free of interest, as the people desiring transfer facilities will be bound to keep their prescribed balance. As in times of crisis people want nothing so much as facilities of transfer the Bank, thanks to these balances, would be able to make loans even from the current account deposits. The Bank may even insist that no money can be withdrawn in cash from the Bank by its customer for purposes of making payments in all those cases where the Bank's Transfer system would suffice. Only for his own immediate use, as for example for pocket money during a long journey or for small domestic expenditure, would the customer be permitted to withdraw any cash from the Bank. This system if adopted by the other Banks as regards their customers and assisted by a wide-spread system of clearings, would help more than any other device in India to economise the use of specie.

The great example of a successful transfer system is provided by the Reich Bank of Germany and the banks associated with it in the clearing house. Under the Reich

87 The Imperial Bank of India shall undertake to remit S. 87 89 money free of charge for its customers between any two places in India whether or not the party to whom the money is remitted is a customer of the Bank at its head office or any one of the branches or agencies provided always that the Bank shall be at liberty to prescribe any such conditions as to a minimum balance of deposits &c. which may be deemed fit by the board of directors of the Bank. The said Bank shall also undertake to collect subscriptions for newspapers premia for Insurance Companies and similar other payments due to its regular customers and recurring periodically free of charge subject to such conditions about a minimum balance &c. as may be imposed by the Directors of the Bank.

88 The Bank aforesaid shall undertake remittance business between distant places in India on account of persons other than the regular customers of the Bank at a charge which shall be lower by fifty per cent. of the minimum charge now made for similar business by the post office under the heading of money orders subject to such conditions as to the minimum sum-remitted &c. as may be prescribed by the board of Directors in that behalf.

89 The Imperial Bank may require all its customers to domicile the bills receivable by them with the Bank and make all bills payable by them through the agency of the Bank and impose such conditions as to the minimum balance in this behalf as may seem fit to the Directors of the Bank.

These provisions are an attempt to introduce the facilities offered to its clients by the Reich Bank in the shape of its "Giro" system of transfers and the so-called "postal cheque." On the continent of Europe these devices are quite well-known and have been pronounced to have proved successful by competent authorities. In this country we shall need more urgently than any people on the continent of

Bank Act this institution was obliged much in the same way S. 87 89 as the foregoing sections oblige the Indian Imperial Bank to facilitate the transfer business of the Germany empire. The Reich Bank found the condition of paying a tax for increasing its note-issue very onerous and found no good compensation in interest bearing deposits for the withdrawal of Trust Funds &c. As the cash brought in by encouraging transfer business can be regarded as good cover for the notes there was a direct interest given to the Bank to stimulate that department of its activities. The depositor avails himself of the transfer facilities, signs a copy of the printed regulations of the Bank relating to the Transfer business, and then opens a transfer account at a branch or head office of the Bank with a "balance" may be afterwards increased by further deposits, by transfers from other current or transfer accounts and by adjustment of transactions between the Bank and its customer. When a transfer is desired the Bank provides two printed forms of different tint, one white which is used for the withdrawal of the sum stated in cash, the other red which will involve only a book entry and no parting with cash by the Bank. The white transfer form is made payable to the customer himself or a named person or bearer. The Red one to a named person only and is not transferable in its turn. This is used almost exclusively for distant transactions. The Bank requires a minimum balance for the transfer account varying from 1,000 marks to several thousands according to the amount of business. To the depositor the transfer facility is allowed free of charge; but to the non-depositor a small fee is levied, which, however, is greater than a similar charge made by the Post Office, as the Bank does not wish to interfere with the postal business as regards the transfers of small sums. As the Reich Bank has branches all over

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Germany and as it is in intimate contact of Germany through the central clearing house at Berlin the transfer business secures the greatest possible economy in the use of the precious metals.

The foregoing sections as already observed are based on this model with the necessary changes owing to the difference in the conditions of the two countries. We have reason to believe that the economy induced by these measures of the Imperial Bank would be much greater than could be secured by any extension of the cheque system, which for at least a generation will not be suitable for the great majority of the Indian people who are unable to sign their own names or understand the nature of a cheque, while these transfer forms can be readily understood by the most illiterate person owing to difference in tint and such other devices.

The Directors of the Bank will necessarily have to make rules to provide for the attestation of marks made by illiterate depositors in lieu of signature, the minimum balances, the colour of paper used for distant transfers for cash or book transfers.

90 The Imperial Bank shall publish an annual account of its operations giving details of the different kinds of banking business allowed under the provisions of this Act or of the Bank Charter Act together with a review of the salient features of the year's business and shall submit the same to the Committee of supervision constituted under the authority of the next following section.

91 A Committee to be called the Committee of Supervision over the Imperial Bank of India shall be constituted by the Government of India and shall consist of not more than seven members three of whom shall be the finance member and the member for Industries and commerce in the

Executive Council of the Governor General and the financial Secretary to the Government of India and the remaining four chosen by a resolution of the Legislative Assembly from among its members representing Indian Commerce and Industry.

92 This Committee shall consider and report upon the working of Imperial Bank of India with special reference to the issue of currency notes and all other business incidental thereto as well as the use and extent of the transfer system the purchase and sale of bullion and securities for the currency reserve and the operations in this behalf of the foreign branches of the Bank. The Committee of supervision shall draw the attention of the Bank Authorities as well as of the Legislature to any evasion or breach of the law and shall furnish explanation on any doubtful point of law which shall be authoritative for the Bank and binding upon the Bank.

93 The Committee of Supervision shall be entitled to ask the Bank to open new branches in places specified by the Committee, to suspend existing branches, to add to or diminish their powers to write off bad debts or realise depreciating securities to suspend remove censure or advance any officer or servant of the Bank.

After providing for the constitution of the Bank there will still be some necessity to create another body to see that the working of the bank is in accordance with the law and that if any lessons are to be derived from the peculiar feature of any particular year they shall not be ignored. The supervising body here proposed is not merely a post obit institution but a committee to control the Bank or advise it in important particulars. Its membership and general powers are a sufficient indication of the fact that the body is expressly established to see that the bank works in public interest and is not led away from this conception of its duties by any temptations. We have

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followed in part the model of the Federal Reserve Board for the constitution and powers of this body and in part the constitution and functions of the "Direktorium" and "Kuratorium" of the Reich Bank. These powers may not be quite adequate to accomplish the end in view but in that case the acknowledged deficiency will be made up by an amending act passed by the Legislature.

94 The committee shall appoint a number of examiners not exceeding one tenth in number of the total branches of the Imperial Bank of India and one additional examiner for the branches in each foreign country.

95 The Examiners shall examine the operations of every Branch as well as the Head Office and every Agency of the Imperial Bank and shall have power to make a thorough examination of all the affairs of the Bank.

In conducting such examination the examiner shall have power to examine any officer or servant or agent of the Branch on oath and after the examination the examiner shall make a thorough and detailed report to the Supervision Committee.

Such examinations shall take place at least twice a year but no date shall be fixed in advance for the examination provided however that the Supervision Committee may direct at any moment a special examination to be held of any Branch or Agency of the Bank aforesaid.

96 The salaries of such examiners shall be paid from the Current Revenues of the Imperial Bank of India but the Examiners shall be regarded in all respects as the Officers of the Government of India.

These examiners shall be appointed by the Committee of Supervision and shall not be removable from their office except for proved misconduct and upon a resolution of the Legislative Assembly specially passed in that behalf.

The salaries of these examiners shall be fixed by the Committee of Supervision subject to the approval of the Legislative Assembly. S. 97 98

97 The expenses of the examination including the travelling charges of the examiners and their halting and other allowances shall be charged upon the Bank and shall be governed by the Civil Service Rule in respect of these charges.

The examination provided in this and the foregoing sections shall be independent and exclusive of such arrangements for the audit of the Bank accounts as may be made by the Bank itself or be required under the provisions of the Bank Charter Act.

98 Any Manager Director or other Officers of the Bank offering any gratuity gift consideration of any kind to an examiner and convicted in a proper Court of this offence shall be punishable by fine not exceeding five thousand rupees and shall be liable to dismissal from the service of the Bank and declared unfit for any appointment under the Government in any other Department.

These provisions have also been borrowed from the American legislation on this subject. A system of independent unexpected rigid examination carried out by competent officers, in no way connected with or dependent upon the Bank, must be regarded as the best guarantee of proper working in practice. The Committee of Supervision will guide the general policy of the institution but cannot enter into details. The members will not be all competent to understand and discuss the technical points involved. They will find their best aid in the examiner's Report which will be made after a thorough inspection by a competent person of all the books papers vouchers and the officers connected with the institution, if necessary on oath. This system has produced excellent

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results in the United States, and there is no reason to doubt that similar results will be produced in India as well.

99 The Charter granted to the Bank under the Charter Act and embodying the privileges mentioned in this Act and others detailed in the Charter Act shall expire ten years after the date of the coming into effect of the first charter but shall be capable of renewal by fresh legislation which may change any of the provisions relating to the administration, supervision and examination of the Bank and its Branches as well as the right of the State to be represented on the Board of Directors by a prescribed number of official directors as well as the share of the State in the profits of the Bank or the tax on excess note issue or the taxes on the movable or immovable property held or owned by the Bank or the stamp or any other duty payable by the Bank as a lump sum or any other contribution to the public exchequer, provided that the provisions of this Act relating to the note issue the transfer and remittance business the purchase and sale of gold bullion in connection with the Paper Currency shall not be altered except as provided for in a Constitutional Act.

We have already expressed our view that it would be desirable to make such a considerable corporation as the Imperial Bank of India a completely government monopoly. The provisions here given are the logical consequence of the compromise accepted, paving the way for a gradual nationalisation of the bank and its activities. The revision of the charter periodically will be desirable as much in the interests of the Bank as in those of the Public, since at each revision the Bank would obtain an opportunity to represent any special hardship in the working of the law which may be remedied.

PART. II

EXCHANGE.

CHAPTER I

I. The Nature of the Exchange Problem.

The problem of Foreign Exchanges is concerned with the settlement of international obligations measured and defined in terms of money. These obligations are mostly as between private citizens of different states; but the participation of the government of particular states is not entirely unknown in this connection. Nor need the part taken by governments in influencing the course of international exchanges be strictly confined to bonafide transactions dealing with the exchange of material utilities as between the government of one country and the citizens or individuals of another country. The payment by the Government of France in 1870-73 of the War Indemnity to the German Government was as important a factor influencing the European exchange of that period as any transaction for the purchase and sale of goods between private citizens of any two countries could have been. Or, to take a more normal, regular example of bona fide trade transaction, the contract by the Government of India to buy 1000 locomotives and 5000 waggons for the various Indian State-owned Railway lines from an English manufacturer is as important a factor in influencing the course of Anglo-Indian Exchange as any purchase of Manchester piece-goods by a Calcutta Marwari firm could be. But though the governments of states do, by bona fide trading transactions or by political exigencies, influence the course of international exchange; and though, as we shall see more fully later on, under certain circumstances the influence of government action on exchange is more substantial than would

seem at first sight to be credible; the bulk of the dealings and factors that in normal times affect and determine the course of exchange are those between private individuals. These enter, each on his own account, into an innumerable lot of transactions, each of which, being expressed in terms of money, must be settled by the passage of the money or its equivalent and substitute as between the parties. In similar transactions within the jurisdiction of a single state, a dealing is completed by the purchaser of a commodity paying the stipulated price in terms of the legal tender money of that country to the seller. Manekji & Co. in Bombay buys 5000 gunny from Martin & Co. of Calcutta, let us say at 8 annas a piece. Manekji & Co. paying Rs. 2500 in rupee coins, or currency notes, or a cheque, or Bank draft, will settle the account. It may, indeed, be that Manekji & Co. make no payment at all for this transaction to Martin & Co., but simply give the latter credit for the amount in their books, hoping to set off the amount by the price of 200 pairs of English boots and shoes which the latter, Martin & Co., have purchased from the former, Manekji & Co. If such mutual dealings between the parties are continual, and their settlement by cross entries in the respective books of account of the parties concerned agreed upon, it may quite probably happen that the only payment having to be made after a series of transactions, covering goods valued at several lakhs of rupees, will be that of the final balance at the end of the normal period of account between the parties. And this actual payment may be quite insignificant when compared to the total volume of transactions between the parties.

In the case of transactions between parties resident in countries of different jurisdiction, though the essence of the commercial dealings remains the same, the procedure of settlement is somewhat different. The difference is due as much to the

difference in political jurisdiction, as also to the consequential difference in the currency systems. Even assuming, for the sake of simplicity, that the basis of currency in the two given trading countries is gold, tacitly agreed upon as the only convenient medium for settling such payments; the form in which gold would be available for this purpose would be that of the respective coins current as lawful money in each of the countries. The coins of one country, even if made out of the same metal, are not legal tender or lawful money in any other country; and hence the mere possession of or claim to the coin of a foreign country brings no corresponding purchasing power to the holder. To obtain the proper purchasing power in one's own country from the coins legal tender in another country, a process of conversion must be carried out, with due allowance for the difference in size and weight and fineness between the respective coins of two different countries. It is as a result of very fine calculations making full allowance for all these factors that the rate of conversion for coins of one country into those of another arises, and comes to be known as the rate of exchange between the two countries concerned. If John Jones & Co. of Sheffield has bought 100 tons of steel rails from Hermann Schmidt & Co. in Essen at £10 per Ton in Sheffield John Jones & Co. must convert the £1000 payable to Hermann Schmidt & Co. into the German currency of marks. Considering the respective weight and fineness of the gold contents of a pound sterling and the mark of Germany in pre-war normal times, the conversion calculus would show the rates of Mks. $20.20 = £1$. In the example given above, John Jones paying £1000 to Hermann Schmidt & Co., would, at the above rate of exchange enable the latter to obtain 20200 marks in Essen.

In the explanation so far we have deliberately excluded all complications in the actual problem of foreign exchanges caused by the difference in the standards of currency between the trading countries, or, still worse, by the excessive depreciation of the inconvertible paper money in one of the trading countries.

These will be treated of in their proper place. For the sake of clearness we must elaborate the illustration already given in order to show more fully how the actual operations of Exchange take place. If John Jones & Co. and Hermann Schmidt and Co. were the only parties carrying on trade between England and Germany, and their deal in Steel Rails the only item in that trade, there would be no alternative but for the Jones people to remit money to the Schmidt firm to settle the transaction. But in practice these two would not be the only dealers, nor their steel transaction the only deal. As against John Jones & Co. who have purchased goods from Germany there will be many a Jack Robinson or Tom Brown, or Bill Smith who have sold goods to Germany; and as against Hermann Schmidt the sellers in Germany there would be many a Heinrich Busch or Schroeder Schön or Johann Durheimer who would have bought from England, say Australian mutton or American wheat or Indian cotton or even British hosiery. The problem of exchange would then be for each British buyer of goods from Germany to discover a British seller of goods to Germany. As the former has to pay money in Germany the latter has to receive payment from Germany. If, now, the former can induce the latter to sell to the former the latter's claim on a German debtor, the former need not remit any money to Germany, but simply send over to his creditor the English creditor's claim on a German debtor. The last named would pay his own compatriot in the local German currency and the same process would be repeated in England. The only peculiarity in these cross settlements would be that the amount to be paid by the debtor in each country to the creditor of *his* creditor in another country would be determined at the rate of exchange between the two countries' currencies ruling on that day.

Determination of the Rates of Exchange.

To understand how the rate of Exchange is determined let us take an example. Suppose the exchange we are investigating is that between the United States and Great Britain — the Dollar-Sterling Exchange. If instead of the Anglo-German example already given, we assume that the parties interested in this Anglo-American Exchange are John Jones & Co. in Great Britain and Yankee Sam & Co. in America, the amount being £1,000 payable for American cotton to Yankee Sam & Co. by John Jones & Co. it would be found that, in the absence of any other means of settlement, John Jones & Co. would have to procure and ship to the United States *gold*, the only convenient, and therefore acceptable, international medium of exchange to the value of £ 1,000. But Yankee Sam cannot do any good with the gold Messrs. John Jones have sent them in payment of their dues, unless and until the gold is converted into the American currency dollars and cents. In normal times, and leaving out for the moment all consideration of loss of interest due to unavoidable delay &c. as well as the expense of minting, the gold contents of £1,000 would be convertible, under the American monetary laws into 4866 dollars. So that the proper, theoretically correct rate for exchanging English into American currency is $\text{£}1 = \$ 4.886$. If, now, the example were extended and made to correspond with the case of cross settlements we noticed above, so that an English debtor, wanting to remit money to his American creditor, can find in England a British creditor wanting to obtain money from his American debtor, the rate at which these parties could be induced to cross settle their mutual claims would be somewhere about this mathematically exact legal rate of $\text{£}1 = \$ 4.86$. Of course at any time the rate may not be quite precisely this correct ratio-technically known as the Mint Par of Exchange. As

the instruments for cross settlement are drawn up in the form of the creditor's order on the debtor to pay a specified sum to a named person or his order, it may happen that at any particular moment the supply of these orders, or Bills of Exchange as they are commonly known, on a given country may be much greater than the demand for them; and in that case the price may fall below the par of exchange to a point at which all the expense and trouble of sending for gold or specie would be compensated. If, in the example of Anglo-American exchange, we consider that there are at a given moment more exporters of goods to England than there are importers of British goods in America, and that in consequence there are more American creditors than debtors to British merchants, the Bills of the surplus American exporters or creditors will necessarily remain uncovered by the corresponding bills of British exporters. And rather than resort to their legal right of getting gold from England, which, even if freely obtainable in England, would cost time and trouble to check, to pack, to ship and mint into American coins—the shrewd Yankee would prefer to dispose of his claims at a price somewhat lower than the Par of Exchange. The depreciation he should have to suffer may be as great as the cost of all the factors outlined above in getting the claims converted into the lawful money of the United States. In normal times, this cost amounted to about .02 per pound Sterling. So that the lower *Specie Point*, i.e. the figure of exchange rate between Britain and America at which it would become immaterial whether the American exporter disposes of his claim in the usual form of a Bill of exchange on London or prefers to demand and obtain gold—would be £1-\$ 4.845. Conversely, if the situation were reversed and there were more American importers than exporters, a few of the debtors in America, having the claims upon them not

satisfied in the usual way, might be obliged to send gold; but gold need not be sent out if the American importer can, at a trifle more than the mint par of exchange, settle his affair. The upper Specie Point, i.e. the point beyond which if the Dollar,—sterling exchange in New York rises further, it would be worth the American importer's while bodily to ship gold to England in settlement of claims against him,—would be £1 = \$ 4.885. In general, then, it may be said that when the exports from a country are in excess of the imports into that country, the exchange between that country and another will fall but the fall cannot be greater than the cost of importing specie to rectify the balance, and will be arrested at a point where it would be immaterial whether the dealings are settled by specie imports or the ordinary channels of exchange. The exchange in that case would be said to be at a discount. Conversely when imports are in excess of the exports from a country, the exchange would rise; but the rise cannot be greater than the cost of exporting specie to rectify the balance, and must be arrested at a point where it would be immaterial if the dealings are settled by specie export or through the usual channels of exchange. The exchange in this case would be said to be at a premium.

Modes of Exchange Quotations.

Before, however, we proceed further in this analysis a point seemingly of mere detail, but in practice of great importance, may be noticed. According to the general British practice the exchange rate is quoted sometimes in terms of the foreign currency *e.g.* £1 = \$ 4.86 or 25.25 francs; but sometimes also in terms of the local British currency *e.g.* 16d. = 1 rupee. The variation in the former case affect only the foreign currency figure, the local unit being taken as fixed. The pound sterling buys more or less of American dollars or French francs, itself, however, wearing a pole-star appearance

of steadiness. In the latter case, however, it is the foreign unit which is fixed and the local currency which is varying, so that sometimes 16 pennies might buy a rupee, sometimes 12 pennies, sometimes 20 and sometimes 35 pennies. The idea of a "rising" or "falling" exchange would imply quite different conditions in the two cases. In the former case a "rising" exchange, meaning £1 = \$ 4.8885 dollars would mean that the pound sterling is becoming more valuable in terms of the American dollar probably because there are more British exports to America than imports from that country, and that in consequence the British monetary unit being in greater demand in America has improved in value as compared to the local American currency. A "falling" exchange means the reverse, i.e. the imports into Britain are greater than exports to America and consequently the English monetary unit depreciates in proportion. Take now the case of the Indo-British Exchange. A "rising" exchange i.e. R10 = 20 pennies instead of the Par (sic) of 16, would not mean an excess of exports from Britain to India. Had the Indo-British exchange been quoted in the same manner as the Anglo-American Exchange, i.e. £1 = 15 rupees, the above rate would have appeared as £1 = 12 rupees or really a falling exchange, a consequence of greater imports from India than exports to that country. During the War when the imports from America as well as India were very heavy into the United Kingdom the Anglo-American Exchange was steadily *falling*, and the *fall* was only arrested by heroic measures such as heavy borrowing in America and a conscriptive mobilisation of American securities held by British nationals for purposes of export in aid of the dollar-sterling exchange. The same factor of heavy imports from India, however, brought about a gradually accelerating "*rise*" in exchange, from the norm of 16d. to 17d, 18d, 20d, 22 and 24d. 28d, 35d. The series of economic causation was precisely the same in each case, and yet for a novice the effect on exchange seems diametrically different. The only explanation is the unscientific system of the traditional exchange quotations in England, which we are rapidly reproducing in our own. The following table of Exchange rates in England is taken from the Times Trade Supplement of April 29.

EXCHANGE RATES.

Place.	Parity.	During War.		During 1921.		Approximate Present Price.
		Highest	Lowest	Highest	Lowest	
New York	4 86 $\frac{2}{3}$	5 06	4 52	4 23 $\frac{1}{2}$	3.23 $\frac{1}{2}$	4.42 $\frac{7}{8}$
Montreal	4 86 $\frac{2}{3}$	5 01	4 32	4 56 $\frac{1}{2}$	3.98 $\frac{1}{2}$	4.48 $\frac{1}{4}$
Paris ...	25 22 $\frac{1}{2}$	28 98	24 97	61.75	45.35 $\frac{1}{2}$	47.82 $\frac{1}{2}$
Brussels ...	25 22 $\frac{1}{2}$	—	—	61.75	45.40	52 17 $\frac{1}{4}$
Copenbazen	18 15	19 68	12 75	24.03	18.50	20.81 $\frac{1}{2}$
Amsterdam	12 07	12 21	8 97	11.85	11.06	11.63 $\frac{1}{2}$
Belgrade ...	25 22 $\frac{1}{2}$	—	—	375	120	270 $\frac{1}{2}$
Vienna ...	24 02	—	—	15.000	1.200	34,000
Budapest...	24 02	—	—	4.500	750	3,375
Warsaw ...	20 43	—	—	26.000	2.200	17,500
Prague ...	24 02	—	—	430	264 $\frac{1}{2}$	227 $\frac{1}{2}$
Berlin ...	20 43	—	—	1.275	203	1,257 $\frac{1}{2}$
Stockholm	18 15	19 75	9 95	17.80	16.35	17.08 $\frac{1}{2}$
Christiania	18 15	18 63	12 65	31.76	19.00	23.37 $\frac{1}{2}$
Bukarest	25 22 $\frac{1}{2}$	—	—	895	217 $\frac{1}{2}$	600
Sofia ...	25 22 $\frac{1}{2}$	—	—	825	260	620
Lisbon ...	52 $\frac{1}{2}$ d.	35 $\frac{1}{2}$ d.	27 $\frac{1}{2}$ d.	8 $\frac{3}{4}$	4	4 $\frac{1}{4}$
Constantinople	110	—	—	890	490	645
Alexandria	97 $\frac{1}{2}$	—	—	97 $\frac{1}{8}$	27 $\frac{3}{8}$	97 $\frac{1}{8}$
Milan ...	25 22 $\frac{1}{2}$	45 65	45 20	109	70	82 $\frac{5}{16}$
Madrid ...	25 22 $\frac{1}{2}$	26 75	16 60	32.50	26.50	28.51 $\frac{1}{2}$
Berne ...	25 22 $\frac{1}{2}$	26 40	18 72	24.30	0.08	22.74
Athens ...	25 22 $\frac{1}{2}$	—	—	1 4.00	48.00	99 $\frac{7}{8}$
Helsingfors	25 22 $\frac{1}{2}$	—	—	325	105	229
Bombay ...	2/0	1/6	1/4	1/6 $\frac{3}{8}$	1.27 $\frac{1}{8}$	1.3 $\frac{5}{32}$
Calcutta ...	2/0	1/6	1/4	1/6 $\frac{3}{8}$	1.27 $\frac{1}{8}$	1.3 $\frac{5}{32}$
Madras ...	2/0	—	—	1/6 $\frac{3}{8}$	1.27 $\frac{1}{8}$	1.3
Yokohama	2/6 $\frac{3}{16}$	—	—	2/8 $\frac{1}{4}$	23.16	2.1 $\frac{3}{4}$
Shanghai...	—	—	—	4/4 $\frac{1}{4}$	2.11	3 5 $\frac{1}{4}$
Hong-kong	—	—	—	3/2 $\frac{3}{8}$	2.2 $\frac{1}{2}$	2.6 $\frac{1}{4}$
Singapore	—	—	—	2/4 $\frac{1}{8}$	2.3 $\frac{1}{2}$	2.3 $\frac{1}{2}$
Manila ...	2/06	—	—	—	—	2.2 $\frac{3}{8}$
Rio de Jan.	27d.	14d.	11 $\frac{1}{2}$ d.	10 $\frac{3}{8}$	6 $\frac{3}{4}$	7 $\frac{1}{8}$
B. Aires ...	47 $\frac{5}{8}$	—	—	51 $\frac{1}{8}$	40 $\frac{1}{4}$	44 $\frac{1}{8}$
Valparaiso	\$13 $\frac{3}{8}$	—	—	40.60	24.43	39.30
Montevideo	51d.	—	—	51 $\frac{1}{2}$	38	42 $\frac{1}{2}$ s
Lima ...	Eng. to	—	—	17 $\frac{1}{2}$ %†	16 $\frac{1}{2}$ %†	10 $\frac{1}{2}$ %pm.
Mexico ...	Poru £	—	—	34 $\frac{1}{2}$	28 $\frac{1}{2}$	26 $\frac{1}{2}$ d.

† Premium

† Discount.

§ Sellers.

In the case of all European countries except Portugal the table shows the amount of foreign currency exchangeable for a unit of the Home currency. In the case of Portugal and all places commencing from Bombay on the list, the rates show the British currency exchangeable in terms of a foreign unit. The system is so mixed up that confusion is inevitable except to those most intimately conversant with this maze of exchange tables, that often renders the financial page of a British Daily newspaper a work of art—most likely a cousin of Post Impressionism. The reform of standardising exchange quotations, so that *all* rates may be quoted in figures of the local currency with reference to a foreign unit, is as highly desirable as it is impracticable in view of the bull-dog British tenacity for all things that have an odour of ancient even if decaying tradition. Faithful imitators as we are, we in India are not a whit behind our masters in loyally reproducing the caricature of exchange quotations in our daily financial news.

The following is a specimen. Exchange quotations on 12th May 1922. Bombay.

B. E.	D. D.	1.3	Selling New York.	T. T.	350.
„	„	T. T.	1.3 $\frac{1}{8}$	„	Paris „ 311.
Selling	T. T.	1.3 $\frac{5}{8}$	Buying „	D. D.	321
Buying	„	„	1.3 $\frac{1}{4}$	Selling Hongkong	T. T. 201
Selling	D. D.	1.3 $\frac{3}{4}$	„	Shanghai	„ „ 253
Buying	„	„	1. $\frac{3}{4}$	„	Japan „ „ 164
3 Month sight		1.3 $\frac{3}{4}$			

In these the Indo-British quotations are all in terms of pennies for a rupee. That is we quote for our unit in terms of the foreign currency, exactly as they do in Britain for American exchange. Hence, from the Indian stand point, a “rising” exchange is an appreciation of Indian currency, and so implies an excess of exports as a cause in all probability. But in the British eye, the “rising” Anglo-Indian exchange is anything but an appreciation of British currency, or an

improvement of British exports to India. Now turn to the other side. Exchange on America is quoted in terms of rupees to 100 dollars, the varying figure therefore being our local currency. A "rise" in Indo-American exchange means a quite different situation. A rupee is worth 28 cents at the above quotation. If the Exchange were to "rise" still further say to 400, the rupee would be worth only 25 cent. or there would be a *fall*, exactly as there is a fall when we find Indo-British exchange shifting from 16d. to 15d. to the rupee. The quotation is thus misleading. Take the next case of Franco-Indian exchange, which shows 311 francs Rs. 100. The process is once again reversed, the rate being quoted in terms of foreign currency-with reference to our unit. The principle of quotation is here the same as in the case of the Indo-British exchange. But the method is again altered in the case of the Far-Eastern Exchanges, in whose case the quotations give the number of rupees for 100 Taels or yens or dollars as the case may be. If the exchange tables are to become at all more intelligible; if the problems connected with exchange are at all to be understood by the masses, and a himalayan waste of energy avoided, the reform of standardising exchange quotations cannot be urged too strongly upon those who have the financial interests of this country at heart. In our view the simplest and most practicable method is to quote for a given unit of foreign currency, the amount of local currency exchangeable. So that our exchange table would read something like this uniformly:

T. T. on London.	Rs. 15½	Per £.
" " " New Yorks	" 350	" 100 Dollars or 3/8 Per Dollar
" " " Paris	" 40	" 100 Francs.
" " " Japan	" 160	" 100 Yen.
" " " Berlin	" 1-4	" 100 Marks and so on

It is however, not very material whether we adopt the above system or reverse it, and quote for our currency as a fixed unit

in terms of the foreign currency, though in my judgment the former seems to be the more easily intelligible of the two. But the point of utmost importance is uniformity. Whatever system is adopted, let it be adopted uniformly. There should be no break of gauge in exchange quotation.

Because of this medley of methods, many a vital problem of national commerce tends to be needlessly complicated or obscured, particularly by the cogitations of committees specially appointed for further *eclaircissement*. A classic instance of high-placed obscurantism would be found in the laboured remarks of the Babington Smith Committee of 1919-20 on Indian currency and Exchange. (pars 34. to 36) We have no special quarrel with their general trend of argument. It is neither better nor worse than what can be expected from a committee of businessmen impressed by the problem of the moment and intent on affording a solution for the moment without a thought or care for the consequences. We might indeed take exception to such a reckless theorising as the following:

“The evidence we have received was unanimous as to the benefit which India has derived from the maintenance of a fixed rate of 1s. 4d. per rupee, for the twenty years from 1898 to 1917; but some witnesses expressed the opinion that fixity is not indispensable. Our conclusion, after considering the views put before us, is that, for the current operations of trade, stability is an important facility rather than an essential condition.”

Without being inveigled by this oracular utterance into the metaphysics of international exchange, we may yet hazard the criticism that the distinction implied by the Committee between “an important facility” and “an essential condition” is for practical purposes like the British constitution. It does not exist. But the true mischief of such half-digested observations arises only when we consider the impression created on the mind of the man in the street. With the best will in the world to arrive at the truth, he would not yet

understand either the logic or the economics, let alone the ethics and metaphysics of such observations as: "A large rise in exchange tends to stimulate the import trade and to impede the export trade, while the reverse effect is produced by a fall in Exchange." This truism of economic science holds good only when we mean by a rise in exchange the same thing as an appreciation of our local currency in terms of a foreign currency, and by a fall in exchange a depreciation of our local currency in terms of a foreign currency. If the exchange is quoted so that a rise would mean an appreciation, not of one's local but of a foreign currency, then the remark cannot hold good. For the process by which a rising exchange, as thus interpreted, helps to encourage the Import trade is somewhat as follows. If the Anglo-Indian Exchange rises from 1s. 4d to 2 shillings, the rupee becomes more valuable. Goods, therefore, which are valued in English currency at £100 will cost at 2. exchange Rs. 1000 instead of Rs. 1,500 that they would have cost if exchange were 1s. 4d. Assuming that the Indian demand is inelastic and that the margin of 500 rupees saved by the higher exchange must be spent, there is no alternative but to import more of the foreign goods till the limit of our purchasing power is reached. To the foreign exporter to India, this is a great boon as he can send 50 p.c. more goods, and get their value in his own currency up to the hilt. But what is "rising" exchange and import stimulus in India is "falling" exchange,—though the quotation does not show it at first glance—in England, whose exporters are, therefore, benefited, apparently without any harm to India. If the process were reversed and exchange began to fall from the Indian standpoint, the Indian exporter would be benefited, as for the same unit of foreign currency as before, he would get more of the local currency than before. The £100 worth of Indian exports, which brought in to the Indian exporter Rs. 1,500 at 1s. 4d. would mean Rs. 2,000 if the exchange falls to 1s. But before this generalisation is

accepted or applied care must be taken to understand exactly the meaning of the exchange quotation, and see if the rise means an appreciation of the local currency or not.

THE INSTRUMENTS OF FOREIGN EXCHANGES.

We may next notice another important matter of detail,—the nature, character and implications of the principal instrument of foreign Exchanges. The Bill of Exchange is the most important of these instruments. Bereft of all the legal and commercial technicalities that in the course of ages have grown up round this very simple expedient to settle claims between parties resident at a distance from one another, the Bill of Exchange is normally an order by a creditor upon his debtor to pay a specified person a specified sum, or as the person specified as the party entitled to receive payment may direct. The following illustration brings out all the salient features of a Bill of Exchange.



576, Esplanade Road, Fort,
Bombay, June 30, 1922

Three months after date pay Messrs. Manekji
& Co. Ltd. of 100 Hummum Street, Delhi, or order
the sum of one thousand rupees, value received.

To

Sadumal Ramdayal & Co.

250 Havelock Hill

Cawnpore.

To understand the form of the Bill more fully let us explain the technical designations of the parties connected with the Bill. The person who gives the order in the first instance is called the "Drawer" of the Bill and is in this instance Gangadas Jammalal & Co. The person on whom the order is made out on whom the Bill is "drawn" is called

the "Drawee" and is in this instance Sadumal Ramdayal & Co. of Cownpore. The person in whose favour the Bill is drawn—who is authorised to receive payment of the Bill is known as the "payee," who in this case is Messrs Manckji & Co. Ltd. of Delhi. The drawee is bound to pay the amount, assuming the Bill relates to a bona fide transaction; but his responsibility becomes more immediate, more personal, more patent, when he, on the face of the Order, agrees to comply with it, or, as the technical phrase goes, "accepts" the Bill. In the above illustration the Drawee, Sadumal Ramdayal, has accepted the Bill and, while accepting, made it payable at a specified Bank. The Bank is not the acceptor, nor bound to pay the Bill if the acceptor defaults. It only acts as an agent for the drawee or acceptor. As matters stand in the illustration given, it may be indeed, that the Bank has agreed to, or does in fact, assume a more direct responsibility; and Bills displaying the signature of well-known banks acquire a special additional value from the mere fact of the Bank's backing. But as things stand the Bank's liability in the given form is not primary. Note, also, that the different parties to the Bill need not be quite so distinct as the above illustration shows them to be. The drawer for instance might have simply said, "Three months after date pay to my order;" and he can order by an indication on the back of the Bill the payment to be made to the present payee. Practically there would be no change; but formally the text of the Bill contains when drawn no distinct payee. Again, though the drawee and acceptor in the illustration are shown to be identical, it may quite possibly happen that the two are distinct. The Bank may, under a standing agreement with the drawee to that effect, accept in its own name, though in reality on account of the drawee. Finally, the greatest advantage of the Bill of Exchange is that it is a *negotiable* instrument; i.e. property in the Bill may be transferred by a simple endorsement—or a statement that payment is to

be made to a person named. When so transferred, the person ultimately demanding payment of the Bill will be asked no questions as to how he came to possess and present the Bill, provided he is a "Holder in due course" i.e. person who has come to hold the Bill in the regular course of its transfer from hand to hand. It has already been mentioned above that the drawer might in the first instance make the Bill payable to his own order in stead of to a named payee, and then transfer or endorse the Bill to the party he intends to pay by writing on the back of the Bill "Pay Manekji & Co. Ltd." and signing that new order. The peculiarity of the Bill as a negotiable instrument is that it is not only the original parties who can make such an endorsement. Any one coming in possession of the Bill by an adequate regular endorsement has the same powers of endorsing in his turn to any other person he likes; and may even dispense with the need of specifying the party endorsed to, by remaining silent on the point and giving only his simple signature by way of endorsement. In such a case the Bill becomes what may be called a "Bearer" instrument which any holder is entitled to receive payment of. Even from the very beginning it might have been drawn as a "Bearer" Bill; but because the drawer does not choose to make out his order in a "Bearer" form, that does not restrict the right of the subsequent indorsees to convert the Bill from an "Order" to a "Bearer" instrument.

There are other peculiarities of the Bill, which, while not affecting its character as a negotiable instrument, nevertheless affect materially its utility as an instrument for settling exchange transactions. In the illustration, the Bill is made payable three months after date; that is, the amount of the Bill cannot be demanded until three months after the 30th of June, the date of the Bill. This in practice is not the 30th of September, but 3 days later—the last addition being made on account of what are known as the days of grace. Three days of grace

must be allowed after the due date to the drawee or acceptor, presumably to find funds wherewith the Bills has to be met. Even if the Bill is drawn "pay eight days after date, eight days after sight," customary three days of grace must be allowed; and the Bill will actually become due and payable only eleven days after date, or after sight as the case may be. Only if the Bill is made payable "on demand"—the usual form of the cheque which is nothing but a Bill drawn by a customer upon his Banker, who need not specifically accept the obligation to be chargeable, possibly because the cheque is never made payable otherwise than "on demand"—there would be no grace allowed. The period, however, during which the Bill remains on outstanding obligation materially affects its value. Apart from the consideration that two or three months after the date of the Bill the commercial and credit position of the parties concerned may be altered, there is the obviously important consideration that money, even when it is quite certain to be paid, is never so valuable in the future as it may be immediately. This is particularly the case with active businessmen, whom stress of competition often compels so neatly and finely to cut down the margin of profit, as to make the rapid turnover of their capital a consideration of prime importance. Hence such a person in possession of a claim to be paid three months later, would much prefer, even at some sacrifice if need be, to obtain immediate payment; and he finds his Bank just the right thing to meet his requirement. The Bank can wait when he cannot. The Bank has spare funds if he has not. But the Bank must have some *consideration* if it agrees to lock up its own funds for relieving the holder. And so the Bill comes to be "Discounted." The consideration demanded by the Bank is measured by the rate of interest then current for such securities in the market. The interest on the amount of the Bill for the period during which payment cannot be demanded is deducted by the Bank while "discounting it" and the rest of the amount is paid over.

Assuming that the current rate of interest is 8 per cent. and the Bill is for three months, the drawer or any holder in due course, wanting immediate payment, would get only Rs. 980 in the above example. If he holds it himself for some time, and discounts the Bill say when it has only a month to run the deduction from the face value of the Bill would be proportionately smaller.

Before proceeding further several minor points of legal detail may be cleared up. The Bill must be an unconditional order in writing for the payment of a definite specified sum. It would not, therefore, be a proper Bill of Exchange if the amount to be paid was expressed as "whatever proceeds you have realised out of the sale of my grand-mother's portrait." Nor would it do for the Bill to be expressed as an order of payment of 1,000 rupees, "if you have so much balance due to me," or "when your daughter marries my son." The dating is necessary for calculating the period of the Bill and its date-of-maturity, while the stamp has to be affixed under the law of the land governing such documents. The absence of the date may be a material flaw in a time Bill sufficient to avoid the obligation altogether, but the absence or insufficiency of the stamp on the Bill is a defect capable of rectification at any time, perhaps on payment of a penalty at most. Finally the words "Value received" though inserted in our illustration, and originally intended to imply that the Bill is a genuine trade Bill taking its origin from a real exchange of commodities,—and not a mere convenience—a mere "accommodation" granted by a friend to another.

In our illustration the Bill has been deliberately drawn to be an inland, or local Bill, wherein all the parties primarily concerned on the Bill are domiciled in India, in order to emphasise the fact that in its origin the Bill of Exchange is an instrument specially designed to settle the dealings between parties at a distance, irrespective of political frontiers. Owing

to a much wider development of Banking, and the consequent creation of convenient means of internal payment by Bank drafts, cheques, currency notes, money-orders or Postal Orders within a given country, the problem of domestic exchange is no longer so important, even in such large countries as the United States or India, as it must have been at the time the Bill of Exchange first came into being. But it must not be forgotten that even now, certainly a century ago, domestic or inland exchanges in countries like the United States were nearly as important as the foreign Exchanges, with the only difference that while in the latter case the problem of the Exchange was complicated by the difference in currency, in the former the only question was that of a cheap effective transfer of money—or avoiding such a transfer and yet settling the transactions between two distances. We in India have not even now reached the stage where, as in England, the charge for internal remittance comes to be practically abolished. Our money-order system still makes a charge of 1 per cent. and even the bank-draft costs $\frac{1}{2}$ per cent. by way of the banker's commission. Even in England, though the cheque system, with the aid of the excellent clearing arrangements prevailing in that country, have practically done away with all charges for inland remittance of any considerable sum, for smaller transactions where the Postal or Money Order is commonly resorted to, the charge still prevails. It is only in countries, where, as in Austria or Belgium in pre-war times, the *Postal Cheque* system is well developed, that there is a certainty of a complete permanent abolition of the cost of inland remittance of money.

For purposes of Foreign Exchanges, however, the Bill in the above illustration would have to be drawn up slightly differently. If Gangadas Jambhalal of Bombay have sent cotton worth £1,000 to Hammerundtongstein of Krefeld, Germany, the transaction would have originated almost certainly in some ar-

arrangement for credit on a London Banking or Accepting Agency, as London is, or used to be before the War, the monetary centre of the commercial world. The German importer has, let us say, arranged with the Deutsch Discontogesellschaft to open a credit with The Britannia Banking Corporation Ltd. of London, in favour of Gangadas Jammalal & Co. of Bombay. As soon as Gangadas Jammalal & Co. have shipped the cotton bales per, say, the Lloyd Tristino Boat Hofburg, they would draw a Bill on the Britannia Banking Corporation Ltd. of London for £1,000 as below:—

£1000-0-0



Accepted 17-7-22
The Britannia Banking
Corporation Ltd.

576, Esplanade Road, Fort
Bombay, 30th June, 1922

days after sight pay to my order the
one thousand pounds sterling.

Gangadas Jammalal & Co.

To

The Britannia Banking Corporation, Ltd.
Lombard Street, London E.C.

This Bill Messrs. Gangadas sell, together with the invoice, Bill of Lading, Insurance Receipt, to the Indian Peoples' National Bank, and the latter mail the lot to their London office for presentment and acceptance. The London office of the I.P.N. Bank present the Bill to the Britannia Banking Corporation, who, if satisfied that everything is *comme il faut* accept the Bill as indicated, and return the Bill to the I.P.N. Bank. The latter might then resell the Bill in the discount market or keep till maturity for their own profit. The papers attached to the Bill, viz. invoice, Bill of Lading &c., are sent over to the Deutsch Discontogesellschaft by the Britannia Banking Corporation. The German Bank in its turn must surrender them to

the Krefeld importer of Indian cotton—Messrs. Hammerundtongstein—to enable the latter to obtain delivery and sell if possible the cotton in time to pay the Bank. Though the Bank concerned tries at every stage in the transaction to keep for itself some substantial security, like the goods themselves or their documents of title, a period will almost invariably intervene during which they will in all probability hold on security save the good name of their client. The Bank, however, is bound on its own account to the London accepting house to make good the amount of the Bill, at least one clear day before maturity, no matter what happens to the German trader. If all goes well, however, our friend Hammerundtongstein would have disposed of the cotton to some velvet manufacturer, and obtained his cheque for the price, which he then pays over to the Deutsch Discontogesellschaft. With the money thus placed at its disposal the German Bank buys another Bill, or sight draft on London, probably a claim of a German exporter on a British importer, and sends it—aggregating the amount of the Bill plus the commission of the English accepting house thereon,—to the Britannia Banking Corporation, who practically set off the claim *against* them of the Gangadas bill in the clearing House by the claim due *to* them in respect of the sight draft they now hold from the German Bank. Hardly a single coin passed, and yet a long series of complicated transactions is satisfactorily settled.

The above may serve to explain a few more technical terms. Originating in a genuine transaction of exchange, the above Bill may be said to be a good trade Bill, since it is drawn by a trader. The drawee, however, is a Bank; and if both the principal parties were Banks of standing, the Bill might be described as a good Bank Bill. Usually, however, Bank Bills are unconnected with substantive trade transaction, being merely drawn up for purposes of financing pure and simple. If a Bank in New York finds money cheaper in London, and wants to borrow it to use for a greater profit in New York, it draws a Bill on a Bank in Britain, pursuant to a standing arrangement to that effect between these parties, sells it in New York and gets the funds it wants thereby. The buyer sends it across to Britain for acceptance by the drawee Bank, and when accepted the Bill may be discounted in London. It is here that the connection bet-

between the rate of discount and the course of foreign exchanges in normal time emerges. For the New York operator, drawing a three months' Bill on London, will get for a £1,000 Bill £990 if the London Discount rate is 4 per cent. and £980 if it is 8 per cent. Hence the lower the rate of discount in a monetary centre the greater would be the temptation to borrow there. The borrowing being conducted by means of a Bill drawn abroad on this cheaper centre, the Bill will go to swell the number of other similar Bills on that centre, and thereby tend to depress the exchange rate on that centre. Any control, therefore, like the one exercised by the Bank of England, on the rate of Exchange may quite easily be made to serve as a corrective for the exchanges. A sharp deliberate rise in the rate of discount will prevent the borrowing tendency, and to that extent succeed in immediately rectifying the exchange pendulum and its movement. Such finance or accommodation Bills are drawn not merely by Banks, but often by borrowing governments to facilitate their loan operations. These Bills have none of the encumbrances in the form of documents that safeguard for the accepting Bank the title to the goods in connection with which a trade Bill takes its origin. But this last must be distinguished from its variety specifically known as a Documentary Bill, in whose case the documents of title attached to the Bill being an integral of the Bill, are not separable.

FACTORS DETERMINING FOREIGN EXCHANGES.

We may now consider the factors which affect and determine the origin and course of international Exchanges. The foregoing analysis would have suggested that the question of Foreign Exchanges arises at all because there is trade, because there is export and import of goods between the trading countries of the world. Generalise the illustration given above, and it will be seen that there are in every country thousands and thousands of traders who constantly import and export any number of commodities for which they become debtors and creditors in an almost hopeless maze of dealings. But import and export of goods is not the only factor that influence and settle the course of exchanges. The following table showing the balance of trade of India at once suggests that imports and exports do not end the tale.

(In thousands of £ stealing)

	AVERAGE OF 5 YEARS ENDING								1919-20	1920-21
	1883-84	1888-89	1893-94	1898-99	1903-04	1908-09	1913-14	1918-19		
1. Exports of Merchandise excluding Government Stores.	£(1,000)	£(1,000)	£(1,000)	£(1,000)	£(1,000)	£(1,000)	£(1,000)	£(1,000)	£(1,000)	£(1,000)
	52,680	59,053	69,940	71,633	83,013	110,206	149,411	149,427	326,793	256,347
2. Imports of Merchandise excluding Government Stores ...	31,966	39,014	45,167	46,527	52,286	74,567	97,232	98,535	200,801(c)	335,603
3. Net Exports.	20,714	20,039	24,773	25,106	30,727	35,639	52,179	50,892	125,992	-79,256(d)

Note.—The Rupee figures for 1919-20 and 1920-21 have been converted at the rate of Rs. 10 = £1. The figures for the years previous to 1919-20 are on the basis of Rs. 15 = £1.

* All possible items in the Balance of Trade cannot be included in the table for reasons given in Chapter I and VI.
 (c) Excludes £4,587,000, the value of railway plant imported but not paid for by private remittances, and £2,584,000 the value of wheat imported on Government Account and paid for in London.
 (d) Net imports.

	AVERAGE OF 5 YEARS ENDING							1919-20	1920-21
	1893-94	1894-95	1895-96	1896-97	1897-98	1898-99	1899-1900		
Council drafts paid in India through ..	5(1,000)	5(1,100)	5(1,100)	5(1,000)	5(1,000)	5(1,000)	5(1,000)	5(1,000)	5(1,000)
Treasury	1,180	12,000	14,514	17,320	17,627	22,207	24,293	31,548	...
Gold Standard Reserve	...	...	...	...	884	1,233	2,165	...	...
Currency .. ..	...	...	...	...	...	207	1,107	2	...
Telegraphic Transfers issued by the Bank of Montreal and paid in India .. ..	...	...	...	...	...	...	...	2,256	...
Funds supplied by Government to finance wheat purchases	...	...	...	...	...	...	...	567	...
Reverse drafts paid in London .. ..	...	...	...	...	...	1,607	31	18,577	28,548
Net ..	3,180	12,000	14,514	17,320	18,507	22,100	27,538	18,229	— 28,548
Balance of Trade in favour of India ..	707	...	360	1,153	1,386	...	...	95,321	...
Balance of Trade against India ..	...	453	...	...	...	1,188	285	...	50,031

Imports and Exports of goods or merchandise on private account, though a very important, is not the only factor in influencing the rates of international exchanges, as there are almost in every country transactions that, apparently not included in the trade returns, in reality operate precisely in the same direction. Taking the case of our own country there is the important item of Stores for the use of public departments, which does not at first time enter into the Trade figures because it is on account not of private individuals but of the government of the country as a whole. The Government of India habitually and regularly carries out many such transactions that must necessarily compel it to have a close connection with, and therefore desire to control, the Indo-British Exchange. These transactions collectively are known as the Home Charges, -- the amounts payable by this government on account of (a) the War Office Charges, (b) Interest on debt, (c) Pensions and Leave or Furlough allowances, (d) Stores &c. which must be regarded as visible or "invisible" imports into India. Just as the ordinary imports of goods constitute a debt upon India, which must be paid by giving equivalent goods in exchange by export, so these two must be similarly settled. Our exports of goods must not only be equal in value to the imports of goods, but must over and above provide a surplus to cover the value of these "invisible" imports, if our exchange is to be maintained. The only relief, momentary, indeed, as it is, that this country can resort to in the shape of "invisible" exports, would be the loans that we may float outside this country. Borrowing abroad, except for definitely productive purposes of immediate national importance, is a wasteful policy that might be commendable or permissible under the gravest possible reservations. But assuming the need and prudence of such borrowing, and thinking only of the immediate effect upon international exchanges of a loan operation, we may say that every loan acts like so much

export of goods. For the amount of the loan in a foreign country may be, in all probability will be, used to pay for the import of goods which would otherwise have had to be liquidated by corresponding export of merchandise. Every loan we raise makes us, from the stand-point of the course of Foreign Exchanges, a creditor country; and, conversely, the interest we pay makes us, again from the stand-point of Exchanges, a debtor country. The loan operation instanced above was that of a government. But it may just as well have been on private account. An Indian mining company, for example, raising capital for diamond mining in Golconda, raises capital in England by the issue of shares or debentures. The scrip sent over to England would be as good exports as any merchandise. And the effect will be precisely the same whether the scrip is that of a new venture raising capital in England; or whether English investors, according to a recent movement on the London Stock Exchange, find and utilise facilities to invest in Indian industrial securities already on the market. The export and import of securities, whether in the form of government debts, private industrial or commercial scrip, or even in the form of finance Bills already considered, influence the course of exchange in exactly the same way as the ordinary movement of goods. The movement of goods, it may be added, is often not controllable, at least immediately; but a proper, adequate, efficient banking organisation can, in times of stress, so handle the movement of securities as effectually would control the course of exchange. When, for example, in the early years of the European War the Anglo-American exchange began to go sharply against Britain owing to her heavy excess of imports from America, the British government tried to steady it by floating heavy loans in America at first; and later on even went the length of a financial conscription under which British nationals were required to deposit all their holdings of American

securities with the Treasury to be sold in America at pinch with a view to support the Anglo-American exchange. If, in days when the Indian exports to the United Kingdom being proportionately heavy, the exchange had to be raised by the Government of India even at the cost of an unpardonable breach of faith, the Anglo-American experience were reversed, and if the Indian Government had endeavoured to utilise our wave of unprecedented commercial prosperity by buying up with the surplus exports Indian securities held by foreigners, the Indo-British exchange need not have been interfered with, and the Indian exporter—the most considerable interest in the country—need not have been penalised. But the Indian finances are managed on lines so thoroughly original, that the suggestion of any imitation of alien experience would be an insult to our administrators; even though the neglect to benefit by the experience of others reacts on us by substantial losses.

The Imports and Exports of goods and securities are thus the most considerable factor in shaping the trend of foreign exchanges. But just as the movement of immaterial claims between countries are apt at first sight to escape attention, so there are other “invisible” factors which must also be taken into consideration, when trying to grapple with the problem of exchanges. The expenses incurred by foreign visitors in our country will act as so much exports; and *per contra* the expenses of our citizens travelling or temporarily residing abroad will act as so much imports for which we must pay by exports. There is, generally speaking no means by which the significance of these items may be measured. Taking the Indian case, the guess may be hazarded that there are perhaps 2,000 Indian students in Europe, America and Japan who cost on an average £300 a head, and, so may be said to add to our Import figure £600,000 a year. Add another £400,000 on account of other travellers, princes, idlers, sight-seers, merchants public

representative &c. and we find we must provide at least £1,000,000 of exports to meet this charge. The converse stream of this nature in our favour is much more difficult to estimate. But as the Himalayas have not yet been exploited to the same extent as the Alps for attracting tourists, and as a good many of our "visitors" are really "guests"—compulsory—at the Indian government houses, this item in our favour, even if existing, must be very insignificant indeed. Closely connected with this item is that of the profits that foreign resident in one country may earn in the country of their adoption for remittance to the country of their origin. There is a considerable amount of foreign capital in India, though no one can say precisely how much. Taking only the case of the jute, tea and planting in general, as well as the mining industries, where capital is largely of foreign origin; and thinking only of the paid up share capital and debentures of these concerns we find that the total investment was about 37 crores of rupees at the end of 1919-20. With an average dividend of 10 per cent—by no means an extravagant figure—the claim on this head alone ought to amount to nearly 4 crores a year—another item of "invisible imports." But this item represents only net interest to capital. It takes no account of the high salaries and allowances paid to non-Indian managers and commissions payable to similar agents. It takes no account of the profits earned by private merchants and unregistered firms of foreign nationality, nor of the professional earnings of foreign doctors, lawyers, engineers, architects &c. Altogether this item of "invisible" imports, which must be paid for by material exports from India, cannot be estimated at under Rs. 5 crores per annum, and may even be, for all we know to the contrary, as high as 10 crores. Against this the similar earnings of Indian capital and labour outside India are practically negligible; for Indian capital is not even sufficient for Indian needs; and is, therefore, practically never

our exports are registered as valued at the point of embarkation *without* addition of freight. To illustrate. If in any year the Imports are registered at Rs. 200 crores, their real value would be,—let us say, only 190 crores, the ten crores being added by way of freight. Similarly if exports are valued at Rs. 250 crores, the real charge to the buyer from India would be Rs. 257½ crores; but the benefit of this addition will be enjoyed by the transport agency. As regards the Banking and Insurance commissions payable by India the figure is even more difficult to determine than that of freight. Statistics relating to Banks in India, particularly Exchange Banks are absolutely silent as to the exact volume of their total business done by these Banks in India. If we assume that the total trade of India—about Rs 500 crores worth—is entirely financed by these foreign banks in India, and that their commission works out at one per cent.—by no means an extravagant assumption unduly favourable to India, in view of the fact that the average discount rate in India is well over 6 p.c. and that the trade Bills are of about sixty days' duration—the commission of Bankers alone would amount to 5 crores a year. Supposing one-half of it is borne by the Foreign exporter of imports into India, even then the net charge on India would be about 2½ crores. A similar sum on account of Insurance commissions, and we have about 5 crores of extra exports to provide at least on this account.

Leaving out of account the entirely invisible and immeasurable charge of freight, we find that our excess of exports is more than swallowed up by the claims due against us by our “invisible” imports. For the sake of simplicity we may crystallise

and illustrate the whole of the foregoing argument by the following hypothetical table:—

Our credits on account of:		Our debits on account of	
	Crores		Crores
Exports of goods	Rs. 300	Import of goods	Rs. 250
visitors in India	" ½	Expenses of Indians	
Remittances of		abroad.	" 1½
emigrants	" ¼	Profits of Foreign-	
Loans raised abroad	" 14	ers	" 3½
	—————	Banks & Insurance	" 5
	315	Government Stores	" 10
		War Office charges	" 15
		Interest on debt	" 15
		Leave &c Allowances	" 5
		Net Treasure	
		purchase.	" 10
			—————
			315

The review of Indian Foreign Trade for 1920-21 says:—

"The strong position built up by India during the war may be stated in terms of her balance of trade. But the caveat must be entered that no statistical demonstration of a trade balance can ever give more than a general indication of the tendencies it sets out to prove. Although the balance is struck on careful records of the values of merchandise and bullion imported and exported on private account and of the official transfer of private funds and securities, the recorded values of goods are by law local market values, and not invoice values and thus neglect the gain or loss on forward business. Nor does the record of transfers of funds and securities include transfers through private agency. No account is possible of the fluctuating and unrecorded "invisible" items such as fire, life and marine insurance premia, freight earnings, profit on foreign capital invested in banking and trading enterprise in India, and private remittance generally. Again any attempt to cast a national trade balance limited to one year's statistics is purely artificial. The most correct estimate would be one framed on a cycle of years, but this is inconvenient as no definite cycle can be laid down. On the whole, therefore, the annual estimate, artificial as it is, has the merit of convenience when closely read with the record of preceding years. (p. 2)

We are not here concerned with the political aspect of the foregoing figures. They are appended as an illustration showing the currents and cross currents affecting the course of exchanges. It is clear from these figures,—which, though not strictly accurate as statistics of any particular year, nevertheless represent substantially the Indian situation,—that if our foreign exchanges are to be maintained on anything like stability we must either maintain a steady, considerable excess of goods exported over those imported; or else develop ourselves the services and agencies for which we are now mulcted in damages by foreigners. The English example in this connection is worth considering. Though she habitually imports more than she exports in the shape of goods, England nevertheless had succeeded to a remarkable degree in maintaining her exchange, thanks to her “invisible” exports in the shape of her shipping, banking and allied services, as well as the export of capital for investment abroad. The following table taken from the Daily Mail Year Book for 1922 shows a steady excess of imports into England.

Years.					Total Imports.	Total Exports
1910	...	...	...	...	678,257,024	534,145,817
1911	...	...	...	...	680,157,527	556,878,432
1912	...	...	...	...	714,640, 31	598,961,130
1913	...	...	...	...	768,734,739	634,820,326
1914	...	...	...	...	696,635,113	526,195,523
1915	...	...	...	...	851,893,350	483,930,629
1916	...	...	...	...	948,506,492	603,845,885
1917	...	...	...	...	1,064,164,678	596,757,207
1918	...	...	...	...	1,316,150,903	532,364,078
1919	...	...	...	...	1,626,156,212	962,694,911
1920	...	...	...	...	1,932,648,881	1,557,222,600

Before the war the steady excess of about £150 million in imports caused no anxiety to Englishmen re. the maintenance of their Exchanges, since the excess was the result of Britain's

invisible exports. During the War, when the vast trade ramifications of Britain were upset, & the most complicated mechanism of modern international credit disorganised, England could not help declaring a national suspension of payments—which they camouflaged by christening it a “Moratorium.” for the occasion. Throughout the War this problem of maintaining the exchanges—so vital to a commercial nation like England—continued to intensify. Heroic efforts,—amongst which the pride of place must be assigned to the unhesitating carte blanche, given by the then Chancellor of the Exchequer and the present Prime Minister, to the Bank of England on the national credit to assist all those traders who were temporarily embarrassed on account of the dislocation caused by the sudden outbreak of a world war—at last succeeded in propping up the British Foreign Exchanges throughout the period of an unprecedented strain. Many of these efforts were reckless leaps in the dark. But good faith and patriotism combined to conceal the defects of financial statesmanship. Since the War the artificial regulation of British exchanges has been wisely abandoned; with the result that though immediately the uncontrolled exchange with America became unsteady and rapidly declined, eventually it recovered with surprising vitality and is, since the beginning of this year, 1922, steadily creeping up to the pre-war, normal par.

CHAPTER II.

Normal Methods of Regulating Foreign Exchanges.

Let us now consider the means by which in normal times exchange fluctuations can be kept within reasonable range. Even in normal times—a typical pre-war year—when the mechanism was functioning beautifully, there were fluctuations either side of the Mint Par of Exchange, on account of the ascendancy which now this factor and now that got in the Foreign Exchanges market. Should the fluctuations go to extreme lengths, touching or even exceeding specie points, there were radical remedies in store which could immediately restore the level. But before these extreme measures could be adopted there were minor, but not less effective, means for correcting slight temporary aberrations. The par of exchange, for example, between London and Paris is £1 = 25.22. If on a given day in Paris the pound sterling sells for 25.35, while on the same day the francs sell for 25.25, the holder of pounds in London finds the francs costing him more than in Paris. If he exchanges his £100, for instance, in London for francs he would get 25.25 francs; but in Paris he would get for the same sum of £100, 25.35 francs. A clever operator would, therefore, sell, in such a case in Paris a Bill on London and with the same money buy in London a Bill on Paris; and pocket the difference. This quick perception of even the very minutest difference, and the double transaction to take advantage of the differences is known as the Arbitrage operation. A difference much slighter than the one mentioned above will be enough to induce alert bankers in constant touch with the pulse of the whole market to engage in these operations by simultaneously buying and selling at either end; so that the difference is gradually destroyed by such competition.

The same operation in principle is resorted to when a similar correction in rates for different kinds of bills on the same centre is desired. "Suppose that in New York the rate for sight Bills is \$ 4.80 and that the rate of interest in London is 4 per cent. This means that the rate for 90 days Bills ought to be, in New York, at the same time, \$ 4.80, *minus* discount for three months at 4 per cent. which is the same thing as saying that we must deduct 1 per cent. from the sight rate. This gives us a long rate of \$ 4.75 approximately. Now suppose that on a particular day, whilst the sight rate remains unaltered, the long rate suddenly goes to \$ 4.79. This means that relatively to the sight rate, the long rate has become expensive, so that it pays to sell it. Suppose that a man with a long Bill sells it, and uses the proceeds to buy the cheaper article, the sight rate. If, subsequently, the long rate falls again and the sight rate rises he will sell the sight, buy the long, and make a profit out of the transaction. To use the expressive technical term he has been "straddling." (*Foreign Exchanges*, by T.E. Gregory p. 50.) The net effect of this transaction is precisely as that shown in the previous illustration—equalisation of the rates. To prevent such slight but annoying variations, or at any rate to spare the traders much vexation resulting from the need of constant meticulous calculations about exchanges in future, banks in all the leading commercial countries constantly hold themselves out as ready to buy or sell "forward exchange" at a fixed rate. A in India indents for machinery worth £10,000 in Britain, and would like to know what precisely he would have to pay for it in rupees. The payment is really not due till say three months hence. If A's banker is doing "forward exchange" business, the simplest thing for A would be to ask his banker to supply him with the firm price in rupees of pounds sterling three months hence. If the banker agrees A would buy exchange forward and the Bank would sell it. A is then certain how much rupee

value he must provide against the £10,000. If he has bought at $1\frac{3}{4}$ he would have to find Rs. 1,52,380 in round terms. If, however, in the meanwhile exchange should go up to say $1\frac{1}{4}$ d. he would have had to find only Rs. 1,50,000. But this cannot be helped and must not be regretted; for if exchange goes down to, say $1\frac{3}{8}$, he would have had to find 154835½. The Bank takes the loss as well as the gain. The activity of the Bank in this instance is commendable in so far as it saves vexation to its customer at the same time that it helps to steady exchange. The steadying influence would be the greater as such transactions are more numerous, more constant and more evenly distributed.

But these expedients help to correct very slight and only daily fluctuations. For the more permanent, more profound effect on exchanges, caused by some fundamental current affecting the main factors governing exchange movements, other means used to be resorted to. In countries where, thanks to a centralised banking system, it was possible effectively to control exchanges, the central bank's fiat raising or lowering exchange sufficed to bring about the desired change. The Bank of England before the War provided the most perfect example of such control. Since England before the War was the only free market for gold; and since the Bank of England was the most considerable holder of the available gold reserve of the country, it followed that the Bank of England's decision as to the terms on which it would give out gold must be respected by all. Suppose the Anglo-French exchange goes against England, and threatens to touch and pass the specie export point. At this time the Bank steps in and raises its rate of discount from say 4 p.c. to 6 p.c. The Bank is still willing to give out gold, but the means to obtain it have been made stiffer. Assuming that the adverse Anglo-French exchange is the result of an excess of French goods imported into Britain,—which cannot for the time being be altered,—this expedient of a rise in the Bank rate can

only end in making money dearer in England. It would pay to any country having a lower rate to send money to England to earn this higher rate. Finance Bills, already noticed, will then come into operation and Bills on London will again be in increased demand. It may be that the French financiers themselves desire to benefit by this rise and against the heavy stream of trade Bills on Paris they begin to set off their finance Bills on London. If so, the Anglo-French exchange would be automatically corrected by action in these two countries only. But if the French financiers would not be hooked by such a bait, it may quite possibly happen that some other country, say Germany or America, takes advantage of this higher rate in England, and sends its money over there, drawing at the same time from France. The mutual intimate interconnection and inter-dependance between the trading nations of the world was one of the most wonderful features of the organisation. So alert and sensitive, so alive and responsive was this connection that at the slightest touch it could be called into action, and set in motion in almost any direction required. England, with its free market for gold—the ultimate corrective for all exchange aberrations; and its highly centralised banking system, was able to bring into play such international forces far more easily than any other country in the world. But even England could not but respond to any considerable current affecting exchanges in any other country. The American crisis of 1907-8 is an instance in point to show that England could not herself remain unaffected by suddenly altered world conditions. But, so long as the basis of all Foreign Exchanges was not materially altered, the expedients above-named could supply, with more or less efficiency, the correctives desired.

The final corrective, however, was to be found in the movement of specie, usually gold. If exchange went against a

country, say against America as between Britain and that continent, and there was reasonable ground to apprehend that the specie export point from America would be reached, the Americans would have nothing for it but to export gold to England. Such a substantial change must be the result of really very heavy imports of British goods and services into America not quite balanced by corresponding exports. The explanation very likely is that it pays America to buy in England, because British prices are lower, and does not pay to sell to England in the same proportion. The export of gold to England would, according to accepted orthodox reasoning, render the quantity of money smaller in the states, and therefore the prices in America of things in general would fall. Conversely the receipt of American gold in England would add to the quantity of money there, rendering it cheaper, and so bring about a rise of prices in England. With the fall in prices in the States, it would be more and more easy for Americans to find markets for their wares abroad. Exports would thus be stimulated from America. With the rise in prices in Britain it would be advantageous to import cheaper foreign goods. Hence the originally disturbed equilibrium of trade conditions undergoes another oscillation and the pointer in the scale reverts to the normal. Exchange is rectified most effectively and finally.

As the movement of specie is believed to have far-reaching effects, there is an instinctive aversion on the part of those engaged in the business of Foreign Exchanges to resort to it, except as a last resource. For specie movement, once permitted, might set in motion forces which it might be beyond the power of the ring of international financiers to control, however, effectively they are otherwise controlling and regulating exchanges. Hence they would trust to discount rates and dealings in securities and finance Bills and all the other expedients before touching this last button. The nervousness, however, about

the movement of specie is unjustified to any one who understands and accepts the foregoing explanation of its consequences. It is only when the evil has gone far beyond such tinkering or normal usual repairs, that it becomes imperative to reconsider the entire situation. As the result of the last War, the whole problem of Foreign Exchanges has come to be so complicated, that it is now necessary to turn our attention to the extraordinary measures now being suggested for regulating exchanges.

CHAPTER III.

Special War Measures Exchange Regulation.

Let us now consider the special situation caused by the War. We have already considered elsewhere in this work the trade and exchange position of India during and after the War, and discussed the remedies adopted. As, however, it has often been declared that the exchange troubles consequent upon the War are by no means peculiar to this country; and that in a large measure they are the result of world conditions, it would not be out of place to examine briefly the development and treatment of the exchange problem as it occurred in the belligerent countries and has eventually affected also the neutrals.

As one of the first consequences of the out break of hostilities the foreign exchanges all over the world began to be strained, and threatened to snap. At the outset of the period 1914-1922 the problem, it must be noted, though apparently the same is essentially different. The first shock of a world-wide War rudely shattered the whole structure of international credit, so that creditors could not recover their dues from abroad in the normal way, and were thus themselves rendered unable to meet their obligations. There could be, in August 1914, no reasonable doubt of the solvency, taken collectively, of all international obligations; and yet the inability to meet them threatened to disorganise exchanges. The remedy for this situation was no longer in private hands. The strongest central Bank dared not assist embarrassed traders to liquidate their obligations, for they knew not when they—the Banks—themselves might feel embarrassed. And yet it was obvious that if this feeling of selfprotection and one's neighbour's distrust was allowed to spread, the calamity instead of diminishing, would

only intensify. Hence the governments of the principal belligerent countries intervened, by declaring *moratoria*, or legalised, authorised suspensions of payments for a specified length of time to enable the embarrassed trader to feel his way, to realise his claims and meet his debts. Where this facility did not suffice—France, England, Germany all were obliged to declare a *moratorium* in the early months of the War—the Government intervened more directly. Mr. Lloyd George rose to the heroic height of authorising the Bank of England to discount all good trade bills, and undertook, on behalf of and in the name of the British nation, to see the Bank safe in the event of any loss being incurred by the Bank by such a piece of national service. The more fully to enable it to discharge this great function the Bank Act of 1844, imposing a rigid limit on the note-circulation of the Bank of England, was suspended. It is not clear if this last facility was actually availed of by the Bank. It is probable the Bank did not need it owing to the issue of Treasury notes by the Government themselves for the purpose of currency. In any case, but for these exceptional, extraordinary measures, it would have been impossible to control the situation. No one knows—no one will ever know the full extent of the liability incurred for the nation by such a blank cheque being issued to the Bank of England. It was a sublime instance of fools rushing in where normally angels would have feared to tread. The Bank of England is reported to have recovered eventually all the advances—aggregating some £600 million—under this authorisation, except about £37 million which is proportionately a mere bagatelle. The last measure of its kind was the closure of the London Stock Exchange—an unheard of event for more than a century—also for the same end. Altogether by a happy combination of skill sympathy, patriotism and dare devilry they managed to get the situation well in hand before it was quite realised that the War was going to be something more than a

short, swift, smashing campaign of complete and final annihilation.

The measures adopted in other countries, notably Germany and France, were more or less parallel to those reviewed above. Of course the local peculiarities of each country gave the tone and form of the specific measures adopted everywhere. But in all these cases taken collectively, the point we have to note is: that while in the early months of the war the problem of exchanges was a problem of affording temporary relief against sudden embarrassment caused to unsuspecting and otherwise solvent traders, the problem thereafter becomes quite different. In the first months it was a question of offering sufficient currency; so they removed restrictions on the Banks of issue. It was a problem of allowing international dealers to wait till they could obtain from their foreign constituents the amounts owed. Hence they declared moratoria. It was a problem of avoiding foreign commitments which might not be recovered. Hence they closed the Stock Exchanges. It was a problem of allaying domestic panic. Hence they removed currency restrictions and even issued additional currency.

All this is vitally different from the problem as it shaped itself during the progress of the War, and is now confronting all civilised peoples. The germ of the new problem is to be found in the measures adopted to solve the first difficulty. The creation of additional currency, for example, the fiat money of governments is the first step for inflating prices by the superabundance of the media of exchange. Originally created to allay domestic distrust and prevent an ugly rush on the Banks it was gradually pushed to economically indefensible limits by the war financing of governments unable to meet the heavy drain of War from current or even increased revenues. The increased media of exchange led to a rise in prices, at first in the

belligerent countries adopting this short cut to perpetual solvency; but eventually also in neutral lands owing to an increase in those places of gold as cover for their paper currency. One thing led to another; and all the while the normal economic forces were supposed to be obscured or suspended, they were ceaselessly, ruthlessly asserting their existence and vitality. Because currency came to be inflated in the belligerent countries, and prices, in consequence, rose there, it became more and more profitable to sell in these countries by neutrals whose level of prices had not yet increased in proportion. The increased sale of foreign neutral commodities in belligerent countries, as much because of the increased prices as on account of the genuine war demands, the Imports into the belligerent countries began rapidly to mount up. And as the Exports of belligerent countries could either find no market abroad at the enhanced prices; or the entire industry of the belligerent had to be revised in view of war needs for munitions, and so the exports had necessarily to be curtailed;—it followed that the balance of trade must swing sharp against the belligerents. The only chance to rectify the balance was to export securities when goods had failed. But the genuine securities representing real material wealth were, in the richest of the belligerents, inadequate to meet the sharp curve of excess imports. And the faked securities in the shape of loans abroad, though for a time useful in stabilising exchange, only helped in effect to perpetuate the vicious circle. Borrowing abroad had to be paid for—at least interest. The War was still continuing and its claims rose more heavily than ever. Borrowing at home, therefore, had to be even greater, heavier, steadier than in foreign countries, resulting in further note-issues, further rise in prices, further excess of Imports, further deflection of exchange.

Before continuing this argument further let us substantiate it by the following table:

TABLE A.—CURRENCY CIRCULATION.
(000,000's omitted.)

Country.	Unit of Currency	December, 1913.				December, 1919.				% which (i) is of (e)
		Gold	Silver	Paper.	Total	Gold	Silver.	Paper.	Total.	
Belgium ...	Franc	(b) 103 ¹	(c) 57 ¹	(d) 1,067	(e) 1,227	(f) —	(g) 31 ⁴	(h) 4,786	(i) 4,817	(j) 392
France ...	Franc	2,680 ¹	1,500 ²	6,035	10,215.	—	1,000 ⁴	37,661 ⁷	38,661	378
Italy ...	Lira	2 ⁵	114 ¹	2,783	2,899	—	—	18,814	18,814	649
United Kingdom	£	123 ³	34 ³	57 ³	214	—	77 ³	459 ³	536 ³	250
Canada ...	£	Not available		211 ¹⁰	[211] ¹⁰	—	—	440 ⁶	[440] ⁶	[209]
India ...	Rupee	750	2,000	646	3,396	—	3,000 ⁴	1,829	4,829	142
New Zealand ...	£	2 ¹	.1	1.7	4.7	—	1.5	7.8	9.3	198
Holland ...	Gulden	17 7 ³	69 4 ¹	317	404.1	—	119 ¹	1,099	1,218	302

Country.	Unit of Corrency	December 1913.				Decembr, 1919,				% which (e) is of (e)
		Gold.	Silver.	Paper.	Total.	Gold.	Silver.	Paper.	Total.	
Switzerland ...	(a) Franc	(b) (60.2) ¹	(c) (7C) ¹	(d) 318	(e) 448.2	(f) —	(g) 225 ⁴	(h) 1,061	(i) 1,286	(j) 287
Sweden ...	Krone	(128) ¹	5.7 ¹	234	252.5	—	40 ²	748	788	312
Denmark...	Krono	—	28.3	152	180.3	—	.4 ²	489	4,984	276
Greece ...	Drachma	(10.4) ¹	15.5	311	336.9	—	10.4 ⁴	1,412	1,516	450
Germany...	Mark	2,750 ³	750	2,562	6,062	—	—	62,036	62,036 ⁷	1,023
U. S. A. ...	\$	1,640	704	1,069	3,413	1,738	490	3,642 ¹¹	5,870.	172
Brazil ...	Milreis	—	—	897	897	—	—	1,748	1,748	19
Japan ...	Yen	37	142	426	605	60 ⁸	151 ⁸	1,486 ⁸	1,697	281

* These figures are taken from Paper No. III of the Brussels conference. Some countries, have, however been deleted from the table as given above. The same remark applies to the Tables that follow.

Compared to 1913 the currency had increased the most in Germany, being 1023 as compared to 1913, and the increase has been more than doubled since then being, according to the latest available figures, 142 milliard marks. The lowest increase is in the United States, if we exclude India in whose case the later figure is vitiated on account of the gold in circulation being not included. The next table, compiled from the same source shows the growth of prices.

Country	Post-war, Active Circulation as a Percentage of Pre-war.	Post-war, Wholesale Prices as a Percentage of Pre-war Prices	Period.
(a)	(b)	(c)	
United Kingdom	250	317	31-7-14—31-3-20
France	378	425	31-12-13—31-12-19
Italy	649	457	31-12-13 31-12-19
Canada	(209)	233	30-6-14 - 31-3-20
Japan	281	301	31-12-13—31-1-20
Sweden	312	317	31-12-13—31-12-19
U S A	172	219	31-12-13—31-7-19

Country,	1914	1915	1916	1917	1918	1919	These two Tables may
France—							Not be taken
Prices ...	116	169	206	309	358	429	
Notes ..	175	233	292	391	530	652	to show a
Italy—							precise causal
Prices ...	101	170	234	363	437(1)	457	
Notes ..	129	181	227	366	499	667	connection
Sweden—							But the inter
Prices ..	116	145	185	244	339	330	
Notes ...	131	149	190	253	360	329	dependence
U. S. A:—							between
Prices ...	100	101	124	176	196	214	
Notes ...	101	109	124	151	157	172	Prices and
Canada—							circulation
Prices ...	100	118	151	187	211	236	
Notes ...	118	136	155	206	239	251	cannot be
Japan—							doubted
Prices ...	91	108	131	166	214	289	
Notes ...	90	101	141	195	268	365	

The following table, the last of its kind, shows the changes in the cost of the dollar—the only reliable standard in exchange calculation—in the different countries, since the signing of the armistice. A date after the armistice has been selected as the starting point because in most countries exchange with America was “pegged” during the War and for sometime after.

TABLE I.—PERCENTAGE CHANGES IN COST OF U.S. DOLLARS.
(Par = 100)

	March 27th 1919.	June 26th 1919	October 2nd 1919	Decem- ber 31st 1919.	March 30th 1920.	June 30th 1920.	Sept. 30th 1920.
India	90.74	80.60	74.57	70.15	67.23	81.61	102.98
Chili	113.65	96.99	103.05	103.05	97.00	108.47	104.35
Japan	83.78	98.23	98.70	98.96	103.30	96.70	97.93
Switzerland	96.86	104.97	107.48	108.25	110.37	106.13	120.43
Canada	102.44	103.00	103.78	108.50	108.62	129.55	110.50
Holland	100.17	103.90	106.06	107.19	109.00	112.43	129.12
South Africa	105.11	105.11	114.24	128.07	135.56	115.32	141.47
Sweden	99.62	105.51	109.61	124.65	124.68	121.26	135.01
Australia	105.11	105.11	114.24	128.75	125.11	122.28	139.44
New Zealand	105.11	105.11	114.24	128.75	125.11	122.28	139.44
United Kingdom	104.74	105.74	114.85	129.34	125.83	122.94	140.25
Brazil	125.98	117.35	125.36	114.83	122.41	136.01	182.76
Greece	100.26	100.52	113.53	126.31	174.19	150.19	186.43
Denmark	103.33	114.78	124.65	158.86	144.87	163.92	187.41
Belgium	118.09	128.32	162.08	208.97	268.79	220.94	275.54
France	115.39	124.84	163.63	209.55	286.73	232.32	290.45
Italy	152.44	154.66	189.10	255.86	396.3	323.20	464.45
Germany	261.29	301.65	512.47	1,156.80	1,666.43	902.65	1,508.37
Austria	553.55	485.85	1,113.19	2,328.74	4,134.69	2,775.34	4,605.32
Poland	—	381.28	652.88	1,985.83	3,666.15	3,094.81	5,812.74

We may next examine the methods which were adopted during the War for controlling exchange, and were more or less successful while the sovereign necessity of the War lasted; but have since proved futile.

The analysis we have given above ought to make it clear that if foreign exchanges were to be really, permanently, soundly rectified, the only means were: (1) no interference with the currency at home beyond the necessary amount of deflation to offset the mischief of the inflation already achieved. This would restore price-levels to more reasonable and normal conditions; and, thereby, so act upon the Balance of Trade as would automatically correct the exchanges. The compelling necessity of War prevented many countries from adopting this one sound remedy for controlling or correcting exchanges. But they could not help seeing the logic of facts; and so they tried to prevent fluctuations in the value of local currency. Two expedients were adopted to achieve the end. (A) The first—known as Pegging the Exchange—was adopted by the British Government for the control of the Anglo-American exchange. They guaranteed that the London New York rate would remain at \$ 4.60 = £1 and, to make good this guarantee, instructed their agents J.P. Morgan & Co. to buy up all Bills on London at this price. It is obvious that the price could not fall so long as the Morgans had funds supplied them by the British Government to pay for the Bills they buy. The funds were obtained and supplied by the British Government from (i) the proceeds of Loans raised in America on the credit of the British Government; and (ii) by the sale or mortgage of dollar securities owned by British citizens and requisitioned from them by the British Government. It was lucky for Britain that America entered the War on the side of the Allies just as the funds arranged for the stabilisation of the Anglo-American exchange came to be exhausted. For thereafter it became the

joint concern of the two governments all through the year and a half of the War, the "pegging" operation never appeared anything but successful. But its success must not be suffered to obscure the fact (x) that the artificially high exchange helped to stimulate British purchases from America, which were costing in dollars less than they would have if exchange had not been thus controlled. (y) And the greater the British purchases in America, the heavier the strain on the exchanges, the higher the cost of "pegging." (z) The only solace—not merely of an academic kind—against this increasing cost of exchange—pegging was the fact that, apart from the attempt of the British government to restrict "luxury" Imports from America, there was the steady rise in prices in America, brought about imperceptibly but effectively by this very provision of artificial exchange which thereby restored somewhat what Prof. Cassel would call the *Purchasing Power Parity*, even when the mint Parity had been destroyed. (B) The second alternative of fixing the value of one's own currency was tried during the War conspicuously by Germany. It fixed the value of the mark and laid down rates at which within Germany the mark could be exchanged for neutral currencies of Switzerland, America, or the Scandinavian countries. This is a special application of the wider principle of controlling prices of commodities tried in many other countries besides. As the fixing of the value of the local currency had to be undertaken to prevent an all too patent decline, the point actually fixed at enabled the local purchaser to obtain foreign products cheaper than would have been the case if the exchange price of the local currency had been left to the normal play of economic forces. As and when this artificial cheapness of foreign goods led to increased imports, the strain on the regulating authority became greater in proportion. It had, in consequence, either to raise exchange and thereby tacitly admit the depreciation of its currency, or restrict imports. But

in times of War, inspite of all restrictions, certain imports must be allowed. And there is the additional factor of foreign speculation in one's local currency which the regulating authority cannot prevent or control. By a simple process of repeated exchanges of German marks into say Danish crowns and vice versa, the intelligent speculator can go on getting a profit until the Government of Germany is forced to alter its fixed rates of exchange, or else to adopt measures against these speculators and their accomplices or tools in Germany itself.

The foregoing criticism against such historic examples must not be interpreted to imply their utter and absolute futility. They were at best expedients; and as such had their obvious limitations. The success of the operations depended as much upon the intrinsic soundness of the expedient, as on the effectiveness with which their limitations were guarded against. The same, *mutatis mutandi* must be said of the two other *genres* of expedients employed during the War by the belligerents to regulate exchange. (q) The desire, for example, to improve or increase the purchasing power available abroad, crystallising in such methods as (a) the requisition of foreign securities held by the nationals for the purpose of sale or mortgage abroad; or (b) raising loans abroad; or (c) gold export are capable of supporting exchange to a limited degree. The first two are possible only to rich nations like Great Britain, with a large store of accumulated wealth in the shape of foreign investments, and an excellent credit. And even in their case the extent to which those methods can be depended on is limited by the magnitude and duration of the demands made. The third alternative—Gold Export would in normal times be the most effective. The mere threat of gold movement used, as we have seen, to correct exchanges. But the gold hoard of the richest country would not have sufficed to meet the demands of the last War. England, for example, had an effective command of about £75

million, while the average monthly balance against her was about £30 million. In less than 3 months England's gold hoard would have been dissipated, and the balance against her as great as ever. It is possible to argue, *a priori*, that the export of this gold from England would have caused a fall in prices, and its import in America a rise of prices there, which would have at once corrected exchanges. But a moment's reflection would suffice to clear the fact, that not only prices do not respond immediately and precisely to the changes in the quantities of money in a country; but that in view of the War needs, the possibility of automatic trade correction by price influences was out of the question. For certain goods—munitions and *matériel* had to be ordered and imported, while the exports must perforce be curtailed owing to the unavoidable diversion of industrial plant for military requirements. For these reasons, gold export, normally the most effective means of exchange regulation, was not even touched upon. Gold export was almost everywhere prohibited, not because the little stock of gold could really prevent prices rising at home or exchange becoming unfavourable, but rather because it was instinctively recognised as useless to dissipate this one means of defence or protection. (C) The last method of restricting foreign obligations, and thereby diminishing the payments to be made abroad, may be found in such expedients as (i) the restriction or prohibition of certain classes of imports and (ii) the prohibition of the export of currency or capital. The former was tried in the shape of heavy customs duties on such articles of luxury as motor-cars or cinema films from the 1915 Budget in England. But though the restricted imports may have declined, and total prohibition may have been effective, it does not at all follow that the effect on exchanges—the *raison d'être* for which these measures were adopted—would be in proportion. So long as the War needs go on demanding certain unavoidable imports; and so long as the same dominating

factor prevents the exports of the restricting country from improving, the exchange difficulty would continue as great as ever. The scheme of controlling or prohibiting export of capital or of currency, in the thousand and one forms in which such export may be concealed requires a very delicate mechanism, too elaborate in its conception and perfection to be suitable for daily use. If successful, however, for a time at any rate, such a provision may succeed in correcting or improving the trade balance. But the confusion of thought which considers the speculator in currencies as bringing about the complications in exchanges, whereas in fact it is more often and more correctly the dislocation in exchanges which tempts the speculator, must be particularly guarded against if such measures of currency or capital regulation are at all to be effective in the matter of correcting Foreign Exchanges.

Most of these measures were adopted here and there during the War. And so the Brussels Financial Conference suggested an abolition of all artificial restrictions for the benefit of exchange. It is true the removal of artificial methods has, in the case of Anglo-British Exchange at least, been followed, after a short, sharp spell of heavy decline, by a gradual recovery of that exchange. But the case of Britain is apart. The other countries of Europe are practically all suffering from a heavy and increasing depreciation of their currency, and consequent decline in their exchanges. And unless some means is found to rehabilitate these currencies and restore these exchanges, the economic recovery of the world must be dispaired of.

POST-BELLUM EXCHANGE PROBLEM.

In considering remedies for the existing situation we must not overlook the causes that has brought it about. The special difficulties of War time have become intensified. The exhausted belligerents are all revolving in a vicious circle out of which there seems to be no exit whatsoever. The victors, particularly France, seem bent upon obtaining the stipulated indemnity to the last farthing, and hope out of the proceeds to make good the ravage of War. But at the same time they do not desire to allow the vanquished to obtain a footing in any of the world markets for purposes of export of their goods. The vanquished have got on ready-made, laboratory-born store of gold to pay this insatiate and impossible demand from the victors. The only way for them at all to meet these liabilities is the export of their goods and services. But before exporting they must import, and the short sighted war-hate of some of their ex-enemies will not allow them to enter any world market for export or import if they can help it. Germany has not yet followed the example of Russia in completely repudiating the Kaiserlich debts at home or abroad. But though for the moment she is struggling to maintain her commercial solvency in face of a most imminent bankruptcy, she has been obliged to water her practically inconvertible paper currency to an alarming extent, making the mark, which was formerly equal to one shilling roughly, equal to less than a farthing. This great increase in circulation has been brought about by the desire to obtain essential commodities, and paying for them by the export wherever possible of a steadily depreciating currency. The rise of prices abroad is followed by a corresponding, though not equivalent, rise at home; and thanks to that rise the Government Budget has to be balanced by a further increase in the uncovered currency. And so the vicious circle goes on perpetuating.

The fate of Germany is but a pale reflection of the tragedy enacting in other less fortunate peoples who are being suffocated by a flood of inconvertible and worthless paper, bringing in its train increase of national debt, increase in the Budget charges for debt increase in prices *ad hoc genus omne ad infinitum*. Hence it was to counteract this most important of the evils of the present situation that Dr. G. Vissering, President of the Netherlands Bank, suggests, in his pamphlet on "*International Economic and Financial Problems*," —

"I wish to call attention to four fundamental points which are to be observed when resolving this chaos:—

I The cessation of producing artificial purchasing power by the issue of Government and municipal debt and paper money (including bank-notes.)

II The revision of the Debts.

III A general credit organisation, in which practically all countries of the world with extensive financial and economic resources could participate.

IV The institution of a system of organised barter for those states whose currency can no longer be accepted as medium of payment in the world traffic.

The first two are intimately connected and cannot be effectively remedied unless the suffering countries are economically restored to something like their normal footing. No doubt, as Prof. Cassel suggests, the limitation of, or even complete cessation of the new issues of inconvertible paper-money is an essential and concomitant condition for any successful attempt at a solution of the exchange problem.* But apart from the inherent difficulty in inducing such an agreement, the chances

Prof. Gustav Cassel has in a work called "*The World's monetary Problems*" submitted two memoranda for the monetary reconstruction of the world. His basic idea seems to be a firm belief in the Quantity Theory of Money, which, in the shape of huge stocks of inconvertible paper, is sending up prices like rockets in the countries afflicted with that curse. But the rise in prices within a given country, caused by an excessive supply

(Continued from previous page.)

of currency, will prevent exports from that country unless foreign exchanges go against that country sufficient to counterbalance the rise in prices at home. If exports are stimulated by such an unfavourable exchange, domestic prices will respond and once again there would be established what Prof. Cassel would call a purchasing power parity. *"In other words the theory asserts that not the balance of trade, but the relative price levels ultimately determine the rates of exchange."* (Gregory *op-cit.* p. 84) The Professor, therefore, considers the problem now presented to be a problem of preventing the "overvaluation" or "under valuation of currencies in terms of the purchasing power parities. He would be indifferent to the actual increase in currencies if only he could be assured that further inflation will not take place. For the existing volumes of currencies, he thinks, would automatically establish their own purchasing power parities; and as soon as that was reached, we might even adopt means to stabilise or fix the values of the depreciated currencies at the new ratio to gold.

These views of Prof. Cassel met with well-deserved consideration at the Brussels Conference where he appeared to disapprove of inflation, and thus seemed to strike a note of moderation or orthodox economics. Nobody quite noticed the implication of his indifference to depreciation of currency actually accomplished, provided no further inflation was allowed. Prof. Cassel seems to regard a return to the old level of prices unattainable, though as a matter of fact the old or pre-war level is by no means so antiquated, nor have all people so fully acquiesced in the new level, as to make his suggestion entirely innocuous. He was himself prepared to admit in his first memorandum for the Brussels Conference, that for countries with the least depreciated currencies a return to their old gold par would offer a very snitable compromise between the new level of prices and the pre-war level, though even then he feared the prices reckoned in gold might be too slow and might go on falling unless all countries agreed not to demand gold either for circulation or reserves. In his second memorandum he becomes much more apprehensive. The deflationist policy of America, coupled with her high tariffs, makes him doubt if the return to gold standard by any single country can be accomplished even at a reduced parity (p. 121 et seq.) He forgets, however, that in practice there is no difference between gold locked up in reserves of national banks of a country, unavailable for all practical purposes, and gold exported, say, to America. If anything the latter would be serving some useful end. Prof. Cassel's idea, therefore, of restoring stability in international exchanges by stopping inflation by joint agreement and conserving gold is likely to be thrown in the background by the isolated action of individual countries on similar lines.

of effective restriction of paper money by countries overburdened by war debts are exceedingly remote. The last two suggest, therefore, a separation of the purely economic side of this problem from that other aspect of it which is indissolubly connected with politics, leaving the question of national debts and Budget, as well as their corollary of inconvertible paper, apart; and treating only of the means to rehabilitate trade and through it exchange. Dr. Vossler suggests an international credit organisation in which countries with sufficient financial and economic resources could participate. And in the case of those countries whose financial and economic conditions do not permit of such participation, this experienced man of affairs suggests a system of organised barter.

It is in the third of the above suggestions that we could apply schemes like the now famous Ter Meulen scheme of international exchange. Briefly stated that scheme consists in fixing for all the valuable assets of a country intending to participate in the scheme by an International Commission, as it is called in the scheme, their gold value, or rather "the gold value of the credits which it would approve against the security of those assets." On this gold value, the participating governments may issue bonds, of such form, date of maturity and interest as the Commission fixes, and enumerating on the bonds the assets pledged against them. The Government issuing the bond fixes its denomination as well as the specific currency in which it is to be issued. As the assets pledged against these bonds are earning assets, the revenues from these assets are reserved for the service of the bonds. The administration of these assets may be left to the issuing government or to the Commission as the League of nations may determine; but in the event of a default by the government concerned the administration must be passed on to the Commission.

In facilitating trade, or the grant of Commercial credit the bonds may be pledged directly by the issuing government as collateral for credits for approved imports on its own account, or by its nationals, to whom the bonds may have been lent by their government to be pledged as collateral for credits for approved imports on private account. In the latter case the bondissuing government is at liberty to fix such terms as to security &c. as it chooses. These bonds are to be used preferably for importing raw materials and prime necessities as will enable the borrowing countries to re-establish production especially for export; and to this end a schedule of approved imports may be drawn up by the Commission and the governments concerned in consultation.

The bonds, duly countersigned by the Commission and secured against specially mentioned assets, may be used by the Importer to pledge with the exporter by way of guarantee of payment. When the bargain to which the bonds relate is completed, the bond must be returned to the importer who must surrender them to his government. If the importer fails in his obligations, the exporter may either retain the bond till maturity, or sell it in the market, unless the issuing government, which must be duly informed, intervenes and pays the exporter his due and receives back the bond. The sale proceeds of a bond must be applied first to satisfy the exporter's claim on the defaulting importer, and the surplus surrendered or accounted for to the issuing government. The bonds returned or purchased by a government must be forthwith cancelled, but cancelled bonds may be replaced by other equivalent bonds subject to the approval of the Commission. Out of the revenues of the assets pledged, (i) 10 per cent. should be reserved for a sinking fund for the redemption at maturity of the bonds outstanding, (ii) a cover provided for all coupons falling due in the next year and (iii) a reserve in such currencies as the commission may determine for the redemption of any bond sold by an exporter.

This scheme is purely commercial and can, if at all, be realised in practice only if the participating governments agree to keep the commercial aspect of the problem—viz. financing of imports and exports on a stable basis of exchange—rigorously apart from the political side. But such a complete separation is next to impossible because in the movement of goods, or rather in the growth of their export trade lies the only salvation for those states of Europe who have any intention to pay up their debts. And, if we are to judge from recent history, there seems to be no desire to allow freedom of trade which might possibly result in the ex-enemy countries ousting their successful rivals from the markets they have acquired and monopolised thanks to the War. And there is the further difficulty, that for the successful operation of this scheme the participants must agree so to arrange their finances as not to allow the defects of the latter to vitiate the inherent merits of this scheme. But this is no better than a pious hope. Without an international agreement in this behalf, it is absurd to expect any of the war-worn countries to try on its own behalf to set its own house in order. It may be possible for a rich community like the British, but even for them the strain would be very heavy. The fact that Britain has not even now made any advance to consider any proposal for an all round cancellation of debts is sufficient proof, we think, of the nature of the strain, though its exact degree cannot be known by any outsider.

But apart from these difficulties connected with national financing and international obligations, there are defects in the Ter Meulen Scheme itself which prevent it from being given effect to. The valuation in gold of productive assets of a country to be offered under the scheme as collateral for individual credit, is in itself a difficult problem that will be rendered still more difficult, if one considers the question whether gold itself has not shifted its moorings, whether it ever had the fixed anchorage

in the shifting sands of exchange values of commodities that it is generally credited to have had. But even granting that the gold valuation of such assets as railways or forests or mineral wealth is possible satisfactorily to fix, there is the much greater difficulty of their administration. The railways of Germany, for example, used, before the War, to be a great earning asset. Since the Peace they have needed subsidies in spite of repeated increases in rates. The gold value of an asset which is actually making a loss would be only hypothetical. But even with this hypothetical value, the question of administration and management would be the hardest nut to crack. No country can afford to surrender control of such vital factors in its national well-being. And no corporation can take over bonds, the mortgage against which is practically impossible to foreclose. Unless the present vague idea of a comity of nations is transformed into the fact of a strong international state—if it is not a contradiction in terms to apply this description to such an institution—with sufficient effective powers entrusted to the central body to carry out such schemes, there is no chance for a satisfactory solution of all the knotty problems of valuation, administration &c.

Pending such orthodox solutions on conventional lines, it would perhaps be a more effective solution of the world-problem to divert attention to the possibility of a whole sale system of treaty-regulated barter. The Anglo-Russian trade arrangement, though crude, may yet be a serviceable model; and a better, more efficient precedent might be found, if need be, in the collective bargaining of the various co-operative wholesale Societies in the different countries. Dr. Vissering explains his scheme for organised barter in the following terms:—

“The simplest form will be that two countries set up such a barter institution between them. Take Germany,

and the Netherlands as an example. Germany would have to prepare a list of the goods she wishes to buy, and the Netherlands would state the quantities which they would eventually be able to supply to Germany. Germany would further have to furnish a list of what she could deliver immediately and what within a comparatively short time, say three months to a year, after the harvest or completion of the process of manufacture. All these inquiries and offers on either side will have to be registered at the Barter institute. On registration the value will have to be determined for which purpose the mark now in circulation can no longer serve. The value could, therefore, be fixed for both parties in Dutch guilders, or, if one has not sufficient confidence in the stability of the value of the guilder, a new unit of account can be selected *e.g.* a fictive gold mark or a fictive gold guilder, which would, in the end, naturally come to the same thing. These offers, and, when actually carrying out the deal, the delivery of the goods can then be cleared for their value, as is constantly taking place in *contango* business, when dealing in futures and between bankers. Large amounts are thus mutually exchanged by striking them off on either side of the account and only actually paying the insignificant balance left, such final settlements frequently taking place between two parties who originally had nothing to do with each other. In the case of Bankers' clearance, for instance, Bank A may be required to pay a debit balance to Bank F although A had not originally owed F anything and had perhaps even done no business with F.

Seeing that the same unit of account can be adopted for all transactions, either party is certain of obtaining the full intrinsic value for the goods supplied by him and will no longer have paper money palmed off upon him which on

subsequent reissue to foreign countries may only possess a part of the value at which it was accepted in payment.

Through the intermediary of the Barter Institute it will be again possible to advance credit on goods to be delivered at some future date. Indeed, if it can be reasonably proved that the electrical engineers in Germany will be able to deliver a certain number of machines within six months, for which machines they have already found buyers in Holland, provided the silk spinner will only supply the silk, the bankers and other money-lenders may, in combination with the Barter institute, render financial help in order to pay cash to the silk-spinner, thereby granting credit to the engineers. Both the electrical engineers in Germany and the buyers of the machines in Holland can apply for this assistance from their bankers; a legal form can readily be found and from a financial point of view adequate guarantees will certainly be found on which the money-lenders can base their credit. Each of the parties on either side may then convert the value in the unit of account of the Barter Institute in the currency of his own country" (op. cit. pp. 51-53.)

We have given this description of an organised system of Barter to show that even those who have all their lives been accustomed to deal in Foreign Exchanges based on differences in currencies, are beginning to recognise the trend of economic progress, and willing to admit the practical possibility of international barter. It is only one step further, and we can think of the complete abolition of this vestige of barbaric times, the *jus monetandi* of each country. If the differences in local currencies are abolished; if a uniform international standard of payments and the unit of account is accepted, there need be no exchange problem at all. International exchange, instead of being a matter of individual bargaining in terms of a commodity

supplied to function as a standard and a medium, would be a matter of interstate treaties directly relating to the commodities sought to be exchanged; and their ratios of exchange would be determined by more perfected devices in the nature of Index numbers, taking full account of the consumption of Life Force in the production of commodities or services. An abstract unit of account may no doubt be employed for purposes of record, especially for transactions spread over a long duration of time. But otherwise organised barter conducted by interstate treaties will entirely do away with the use of money, and therefore with the problem of Foreign Exchanges.

But though in fact the excellency of a properly functioning foreign exchange mechanism is tested in each country by the degree of stability with which its currency exchanges for those of other countries, at the same time involving the least possible movement of specie—thereby suggesting the ultimate ideal of an entire elimination of money from international commerce—the direct suggestion of abolishing money is bound to be received with scepticism, incredulity and hostility. In common parlance the economic truths like Imports must be paid for by Exports are either not properly understood, or misinterpreted whenever the essential narrowness of commercialism asserts itself. As a practical measure, therefore, the suggestion of a universal simultaneous reversion to the system of barter for international commerce is not to be thought of, unless the Russian model of a thorough and deliberate discredit of the local currency system is first achieved all-round. But, in its turn, the Russian model implies or presupposes the repudiation of national debts, translating itself into a remenciation of inter-state obligations. And if this one hindrance to the economic recovery of the world is removed there is no reason why the old mechanism of international exchange should not be rehabilitated. At the

present moment the nations most suffering from exchange troubles are not likely, each on its own account, to consider the possibility of organised barter if it only means the abolition of their own national currency. They control the supply of the latter; and though its increase is rebounding upon them with disastrous consequences, they would still prefer this short way out of their temporary embarrassments. But they are almost all convinced of the futility of their pose to pay their national debts; and would only too gladly consider any scheme of mutual cancellation that would save them from the most onerous section of their internal budget. Once free from this ineubus, the mischievous activity of the printing press may and will be stopped, and exchange would recover its normal level without further ado, without any artificial measures for devaluation of depreciated currencies. Deflation would, of course, be necessary in proportion as the paper-money now in circulation is really in excess of the commercial needs of each nation; but this kind of deflation must proceed gradually and imperceptibly so as to cause the least possible friction with the conditions existing.

Apart from world considerations, our own exchange problem need not, normally speaking, be ever complicated if the measures outlined in the preceding section are adopted. The British branch of the Imperial Bank could always husband our resources when our exports are in excess; and in the rare event of an import excess, it could keep exchange steady by temporary loans abroad, or utilisation of part of the accumulated balances, or sale of foreign securities from the Reserves, or in the last instance export of specie from India.

PART III.

BANKING IN INDIA.

CHAPTER I.

The organisation of Banking in India is headed by the Imperial Bank of India, which came into existence on the 27th of January 1921 under an act passed in September 1920. Though a state Bank in the sense that it has been specially created by a specific Act of the Indian Legislature, and is in a measure controlled and supervised by the Indian government, it is essentially a private corporation, formed exclusively by private capital. Its benefits in the shape of profits are thus reserved for private individuals, while the other possible advantages of a state Bank are not to be thought of in view of the functions the Bank is specifically authorised to discharge. The Imperial Bank of India has been formed out of the amalgamation of the old Presidency Banks, whose undertakings together with the assets and liabilities the new institution was specifically authorised to take over. The capital of the new Bank consists of Rs. 11,25,00,000 made of shares of Rs. 500 each, half of which will be fully paid up. These shares are really no new investment, but represent the converted capital liability of the old Presidency Banks, which amounted, together with the Reserve, to Rs. 720 lakhs. The increase in capital was occasioned by the highly favourable terms of conversion offered to the shareholders of the superseded or amalgamated Presidency Banks. The Bank is expected to act as the sole Banker to and be custodian of the Treasury and cash balances of the Government of India and the various local governments, including also the Secretary of State for India in Britain, for whose convenience a branch has been, and was by the act required to be, opened in London.

The following statement shows the financial position of the Imperial Bank of India as on the 19th May, 1922.

Liabilities.-

Subscribed Capital ...	...	Rs.	11,24,20,000
Paid up ..	...	"	5,62,30,000
Reserve ..	...	"	4,01,82,000
Public Deposits ...	...	"	13,63,33,000
Other Deposits ...	...	"	55,43,52,000
Loans against Securities per contra ..	...	"	31,55,000
Loans from the Govt of India under section 19A of the Paper Currency Act against Inland Bills	}		"
Contingent Liabilities ..	...	"	.....
Sundries ..	...	"	1,28,71,000
			<hr/>
			80,29,23,000

Assets.

Government Securities ..	...	Rs.	8,40,21,000
Other authorised ..	...	"	1,28,24,000
Loans ..	...	"	16,44,44,000
Cash credits ..	...	"	27,93,13,000
Inland Bills discounted ..	...	"	5,83,69,000
Foreign Bills ..	...	"	2,09,000
Bullion ..	...	"	.....
Dead stock ..	...	"	2,46,45,000
Liabilities of constituents ..	...	"	.....
Sundries ..	...	"	50,67,000
Balance with other Banks ..	...	"	6,46,000
			<hr/>
			62,95,38,000
			Cash 17,33,85,000
			<hr/>
			80,29,23,000

The above Balance Sheet includes:

Deposits in London ...	...	£	70,0000 0 0
Advances ..	...	"	3,05,800 0 0
Cash & Balances ..	...	"	38,416 0 0

It will be seen from this statement that the most considerable source of the working capital of the Bank is provided for by public or government and private deposits, which between them amount to over 69 crores. Government deposits make up 20 per cent. of the total deposits with the Bank. On all deposits on current account, which the Governments the various semi-public corporations, the Trust Funds and charitable endowments as well as the other Banks for clearing purposes must maintain with the Imperial Bank of India, that institution pays no interest; and is thus a gainer to the extent of nearly 2 crores a year by way of saving of interest. It follows in this regard the practice of the Bank of England; and may be excused in view of the kind of business entrusted to it and discharged by it. On the assets side the most considerable item of business done by the Bank is that of cash credits, accounting for nearly 28 crores; and next in importance is Loans to customers. The Cash credits are given on approved securities; permissible within the terms of the Act constituting the Bank. They are in the first instance for six months, but may be renewed any time the Bank authorities think fit. The Loans to customers follow the same principle. The difference between the two is that while the loan is a fixed amount for the period for which the advance is made, the cash credit is usually granted upto a stated maximum beyond which the borrower cannot ask, but within which he can pay up or withdraw as often as he likes during the currency of the arrangement. In the case of the loan of 5 lakhs at 6 per cent. for 6 months, the yield to the Bank is a certain Rs. 15,000. But a similar advance of 5 lakhs on cash credit will yield, not more than Rs. 15,000 and may be much less in accordance with the debit and credit operations on that account. It is, however, a more convenient form of arrangement or facility for the more considerable merchants and industrialists, and hence perhaps its popularity.

The investment in Government and other authorised securities is, a necessary but not a very important form of the Bank's business. Since the Bank is not entrusted with the management of the Paper Currency in India, the investments in public securities has not the significance which it would have had the Bank been made a note-issuing institution. Nor do those investments bring to the Bank its command over the Indian money Market, which, if the Bank directly acquires it, can be achieved more efficiently by cash credits and Bill Discounting. This last which appears as the most important in the case of other Banks doing similar business, is disappointingly low in the case of the Imperial Bank of India. The Bank has been specifically excluded from financing the Foreign trade of India, and is thereby debarred from a most considerable source of profitable business. But the disappointment is felt not so much on account of the Bank as on that of the general public. Any hope of a better regulated and more stable exchange as the result of this institution must be abandoned so long as the Imperial Bank compulsorily refrains from the Foreign Exchange business. Its work in connection with the discount of inland Bills is, also, from the above figures, not considerable in proportion to the importance of the Bank to the financial life of India. The only advance that the institution of the Imperial Bank has marked over the previous practice is that the inland Bills discounted by the Imperial Bank are now made available upto a maximum limit of 5 crores as cover against currency notes issued in a period of tress. Neither the fixed limit of five crores, nor the precise means by which the connection is sought to be established between the volume of trade and the volume of currency is the country can be actually approved of, however commendable they may be in intention. We have, however, spoken of this more at length elsewhere and must accordingly refrain from further comments on the same point here.

The foregoing discussion of the chief kinds of business transacted by the Bank would make the following summary of the statutory provisions in this regard more intelligible

Schedule I Part I of the Act lays down the various kinds of business the Bank may carry on. Briefly stated, the main classes of business sanctioned are.—

(1) Advancing money upon the security of:—

- (a) Stocks, &c., in which a trustee is authorised by the Act to invest trust monies.
- (b) Securities issued by State aided Railways, notified by the Governor-General-in-Council.
- (c) Debentures, or other securities issued under Act, by, or on behalf of, a District Board.
- (d) Goods, or documents of title thereto, deposited with, or assigned to the Bank.
- (e) Accepted Bills of Exchange or Pro. Notes.
- (f) Fully paid shares and debentures of Companies with limited liability or immoveable property or documents of title relating thereto, as collateral security where the original security is one of those specified in *a*, *b*, *c*, *d* and, if authorised by the Central Board, in *e*.

(2) With the sanction of the Local Government, advancing money to Council of Wards upon security of charge.

(3) Drawing, accepting, discounting, buying and selling Bills of exchange and other negotiable securities payable in India and Ceylon, and subject to the directions of the Governor-General in Council, the discounting, buying and selling of bills of exchange payable outside India for and from or to such Banks as may be approved.

(4) Investing the Banks funds in the securities referred to in (1) *a, b, c.*

(5) Making Bank Post Bills and Letters of Credit payable in India and Ceylon.

(6) Buying and selling gold and silver.

(7) Receiving deposits.

(8) Receiving securities for safe custody.

(9) Selling such properties as may come into the Bank's possession in satisfaction of claims.

(10) Transacting agency business on commission.

(11) Acting as Administrator, and winding up estates.

(12) Drawing bills of exchange and granting letters of credit payable out of India for the use of principals in connection with (11) and also for private constituents for *bona fide* personal needs.

(13) Buying, for the purpose of meeting such bills, &c., bills of exchange payable out of India at any usance not exceeding six months.

(14) Borrowing money in India.

(15) Borrowing money in England upon security of assets of the Bank, but not otherwise.

The principal restrictions placed on the business of the Bank in Part 2 are as follows:—

(1) It shall not make any loan or advance:—

(a) For a longer period than six months;

(b) upon the security of stock or shares of the Bank;

(c) Save in the case of estates specified in Part 1 (Courts of Ward) upon mortgage or security of immoveable property or documents of title thereof.

(2) The amount which may be advanced to any individual or partnership is limited.

(3) Discounts cannot be made or advances on personal security given, unless such discounts or advances carry with them the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

During the course of a very exhaustive inquiry into the working of the large German Banks from 1870-1910, several charges were made against the general policy pursued by these Banks. The most important amongst these charges urged:—

- 1 That in the mad haste to secure business the Banks omitted to pay adequate attention to the safety of their depositors, and invested the funds entrusted to them without considering if those funds represented savings of the people or the surplus cash.
- 2 That the investments of these banks were made disproportionately, dangerously in non-liquid assets like industrial securities, which exposed the Banks to serious dangers that prudent banking should avoid.
- 3 That the vast resources placed at the disposal of the Banks were not utilised by them towards the financing of agriculture,—the most important single industry in Germany, but were dissipated in an extravagant assistance afforded to foreign trade and industry.

We are not here primarily concerned with the results of this inquiry in Germany; but have mentioned the case to point out with greater emphasis the repetition of the alleged errors of German Banking in India. The Imperial Bank of India is constituted to serve as a State Bank in the narrowest interpreta-

tion of that term, with limitations and restrictions which no other State Bank would care to assume. The State brings to the Bank a fairly safe business, and allows the profit from that business, and the benefit from the resultant connection to go to its private proprietors. But in return the state lays down restrictions which incapacitates the Bank from the very commencement from being as useful as it might be. Having no power to influence the volume of currency in India, the Imperial Bank of India is unable effectively to control the Indian Money Market in the manner that the Bank of England or that of France can by operating on its Rate of Discount. Having no power to engage in the Foreign Exchange business, the Imperial Bank is unable to confer the one great boon it was or should have been expected to confer upon the country under the exceptional circumstances in which the Bank was created. It may, indeed, be conceded that the principal state banks in the world did not directly enter into the Foreign Exchange business, probably on account of the supposedly risky character of this branch of banking business. In making this concession we do not overlook the example of the Austro-Hungarian Bank, which, prior to the war, used to maintain the practically Gold Exchange Standard in that country by means of considerable holdings of Foreign gold Bills. To a great extent the Russian State Bank also did a similar kind of business. But granting, for the sake of argument, that the best example of State Banking shows a commendable caution in avoiding direct dealings in Foreign Exchanges, we must not overlook their indirect, but not less effective powers of control over the Foreign Exchange business. By a sudden, sharp rise in its rate of discount the Bank of England could, in normal times, easily and effectively redress any inconvenient temporary aberration in exchanges. The Imperial Bank of India is precluded from direct dealings; and has no means of effective control indirectly. The regulation of Exchange—

which must be an important, a vital consideration in the commercial life of India particularly so long as the currency is not honestly based on a gold standard—still remains the monopoly of the Government of India, who own and control the various reserves, and whose sterling obligations necessarily make them interested parties, without, however, the experience of and intimate contact with the business conditions of the country which must be a *sine qua non* of such powers of control and regulation.

The investment of the resources placed at the disposal of the Imperial Bank can, no doubt, render it of considerable service to the Commercial world, which needs only short terms credit and can afford to pay the interest levied by the Bank on such short loans. To a privately owned, profit-making concern, like the Imperial Bank of India, this would necessarily mean the most tempting as well as the safest business. As things stand at present; and if the present traditions of the management of the Imperial Bank get time to crystallise into conventions, there is no danger for the Imperial Bank to incur the charges urged against the German Banks of an excessive favour shown to industry and foreign commerce. The Indian State Bank cannot engage in the latter and will not risk the former. It will follow the most approved, orthodox line of commercial banking, however much this ill-placed and ill-timed conservatism may prejudice the interests of Indian agriculture and commerce. In Germany the champions of then prevailing banking practice could point to the existence of the *Landschaften* and *Genossenschaften* (agricultural or Land Banks and Co-operative Societies) as an excuse for them,—the ordinary commercial Banks,—to refrain from such business. We in India have no Land-banks. And though agriculture is by far and away the most important industry in the country, we have devised no means of a scientific financial assistance to that industry. In another chapter we have attempted to sketch out a scheme for a land-bank in India, which

may work independently of the Imperial Bank as a distinct institution, but which must be supported by the Imperial Bank if its object is at all to be realised. The Imperial Bank must, in fact, have an agrarian department which will co-ordinate the Land Banks proper as well as the rural co-operative credit societies, finance them when necessary, and even help to popularise their securities by lending it the collective credit of the Imperial Bank. The same remark applies to the financing of industries in India. Elsewhere in this work has been discussed the whole question of industrial finance, together with a specific scheme for the constitution of such an institution. But like Land Banks and Co-operative Societies, the Industrial Bank, to be really successful, must be assisted and controlled by the Imperial Bank of India, not only in the narrower interests of sound banking in whatever department its activities are considered, but also from the wider stand-point of our national development.

Without an industrial and an agrarian side; without the power to regulate our foreign exchanges, or the right to control our currency system, the Imperial Bank of India can, at best, be of limited utility in commercial finance. Its benefit in this department has already been conceded. But even here a word of warning against too sanguine expectations would not be out of place. An unflinching measure of the real utility to commerce of such an institution is to be found in the so-called Bank-rate. The Imperial Bank-rate may, indeed, on an average be pronounced to be lower than that of its predecessors the Presidency Banks. But it is not yet as low as the rate in France or England or Germany. The explanation probably is: that under the existing financial situation in India, the heavy recurring borrowings by the government, both by means of the short term Treasury Bills and the more permanent forms of funded indebt-

edness, incapacitate the Bank from inducing any ease in the Indian Money Market. Government seems always on the look out to snatch away the surplus cash of the community, and thereby prevent the Bank-rate from falling as it otherwise might have done. This, of course, is an argument for retrenchment and reform in the public finances of the country, and not a criticism of the Imperial Bank. We have mentioned it, however, only to show that even in the narrower region of pure commercial financing, the Imperial Bank of India is, owing to an unfavourable concatenation of circumstances, unable to be as fully useful as it may legitimately be expected to be.

These defects in the operation of the Bank cannot be corrected, unless the Bank is organised as a genuinely public corporation, as truly a state Bank in all essential particulars. Its capital may be provided by the State out of its various reserves, though the bulk of the working capital of the Bank must necessarily be found out of the public balances habitually kept with it and private deposits. Its management should be entrusted to state nominated directors in part, and in part those nominated by the supreme Indian Legislature. In the comprehensive scheme of currency reform given in the first part of this work, we have already referred to some of these essential provisions, and need, consequently, not enlarge upon them here. Under the present Act the Bank is controlled by a Central Board of control, consisting of the Presidents and Vice-Presidents of the Local Boards, the Controller of Currency or other officer nominated by the Governor-General in Council, the Secretaries of the Local Boards and two Managing Governors. This body looks over the general working of the Bank, under the provision of the Act constituting the institution. For detailed management there are the Local Boards at each of the three Presidency Towns. In a properly constituted state Bank the element representing the public on the supreme Directorate of the Bank—whether by nomination, by election or both,—will not be in any way less

than that provided for in this act. But the powers of final supervision vested in the proprietors—unavoidable under the present constitution would be replaced by those of the Legislature; while the profits from the operation of the Bank—which ought to run into several crores a year if the reserves and balances of the Government are made over to the Bank—should be reserved for the public. In exchange the Bank should be expected and required to make adequate arrangements for affording the necessary financial facilities to Indian agriculture, Indian industry, and Indian commerce both within the country and without.

CHAPTER II.

Other Banks in India.

Next in order of importance, in view of their number and the nature and dimensions of their operations are the so-called Exchange Banks in India, which play an important part in the financing of Indian trade. These are all banks with Head Offices out of India. Several of these banks were founded 60 years ago. Of the 11 banks, six do a considerable portion of their business in India, *e.g.*, the Charter Bank of India, Australia and China, the National Bank, etc., while others are merely agencies of large banking concerns doing business all over Asia, *e.g.*, the Hongkong and Shanghai Banking Corporation, The International Banking Corporation, the Yokohama Specie Bank etc. The Delhi and London Bank, it may be noted, has recently been amalgamated with the Alliance Bank of Simla and the Allahabad Bank has been taken over by the P. & O. Banking Corporation. The business of these banks may be divided into (a) Exchange business, and (b) ordinary banking business.

Firstly with regard to the *Exchange business* so far as it relates to the export trade of India. Bills against the export trade are drawn D-A (documents on acceptance) and D-P (documents on payment). They are purchased by the banks' branches in India. The D-P bills are held by their London offices until they are retired or paid at maturity. The D-A bills as a general rule are discounted, or rediscounted, immediately after acceptance. They are rediscounted, with the English Joint-Stock Banks, and the Scotch Bank or with bill-brokers financed by these, and especially in times of stringency with the Bank of England. These bills may be held for a time by the Indian Exchange Banks in London. This would occur when business in India was stagnant or

when money was difficult to employ in London. To the extent to which the D-A are rediscounted immediately after acceptance (which they are in the great majority of cases) the Indian export trade is financed not with the funds of the Exchange Banks, except from the time of the purchase of the bills in India to their arrival in London, but with the funds of the British Banks, *i.e.*, with British and not Indian capital.

Next with regard to the import trade. The Exchange Banks also finance the import trade through their London offices. Bills are drawn on the consignees D-A or D-P, in sterling for the most part, payable with interest from the dates of the Bills to the approximate dates of arrival of the remittances in London, by demand draft on London. These bills are never rediscounted. Thus the import trade, it will be seen, is financed to a much greater extent than the export trade with the funds of the Exchange Banks alone. The Exchange Banks' purchases of Indian export bills represent transfers of their funds to London. Their advances against import bills are the return of these funds. As exports normally exceed imports, the deficiency of import bills is made good by shipments of gold coin and bullion and also silver bullion from London and elsewhere, and to a very small extent by transfers of Government Rupee Paper from London to India, and as regards the balance by purchases of Council Bills and Telegraphic Transfers. The last are freely resorted to when exports from India are at their height, and when it is to the Banks' interest to move their funds back to India in the shortest possible time. The Chartered Bank, for example, may buy on Wednesday these transfers and by the following day the Calcutta, Bombay, and Madras branches will find themselves in funds. This, in brief, is an outline of the Banks' exchange business proper.

*Supplement to the *Gazette of India*, 25th December 1875, page 1058. Cf. the *Gazette of India*, 1st January 1876, page 14.

The Exchange Banks also do an *ordinary banking business*, and in this they have as competitors both the Presidency Banks and the Indian Joint-Stock Banks. They compete with the latter banks in raising deposits whether on account or as fixed deposits. Their deposits have increased very considerably during the last few years.

Total Deposits of all Exchange Banks secured in India.

In Lakhs of Rupees.

1895	...	...	1030	1910	...	...	2479
1900	...	...	1650	1911	...	...	2816
1901	...	...	1153	1912	...	...	2953
1902	...	...	1370	1913	...	...	3103
1903	...	...	1614	1914	...	...	3014
1904	...	...	1632	1915	...	...	3354
1905	...	...	1704	1916	...	...	3803
1906	...	...	1808	1917	...	...	5337
1907	...	...	1917	1918	...	...	6185
1908	...	...	1951	1919	...	...	7435
1909	...	...	2027				

The terms for deposits, both on fixed deposit and on current account, are as a rule more favourable than those of the Presidency Banks, while less favourable than those of the Indian Joint-Stock Banks. The Exchange Banks also compete with these banks in loans, overdrafts, and discounts. It will be seen from the table on page 4 that the Exchange Banks have 45 branches in India, as compared with the stipulated 100 branches (including head offices) of the Imperial Bank of India and 68 head offices and 160 branches in the case of joint-Stock Banks. The Exchange Banks are not under the obligation of maintaining, even during the busy seasons, large cash balances. Upon the strength of the deposits will a bank's participation in the loan, overdraft, and discount business depend. The extent then of the Exchange Banks' participation in this ordinary banking business will readily be understood. The representatives of the Exchange Banks before the Chamberlain Commission said that they were to some extent in competition with the Presidency Banks, and illustrated this by the branches of the Exchange

Banks in Delhi and Amritsar which foster in these cities their Manchester connexion by advances on piece goods. It must, however, be remembered that when Exchange business is at its maximum, in February and March of each year, the funds of the Exchange Banks are much more largely invested in the Exchange class of business than at other times. This is important as it results in some impairment of their power to compete with banks other than Exchange Banks in the discount market.

The subjoined table gives a general Statistical view of the banking business transacted by the five most important of these institutions.

LIABILITIES OF FIVE ANGLO-INDIAN BANKS, DECEMBER 31, 1920.

LIABILITIES.				LIABILITIES.			
					£	%	
Chartered Bank of India Australia and China.				Reserve ...	2,150,000	10.7	
	£	%		Notes ...	157,305	.8	
Paid up Capital	3,000,000			Acceptances &c ...	819,594	4.1	
Reserve ...	3,500,000			Deposits, &c. ...	16,819,211	83.4	
Total Capital and				Profit Balance ...	211,638	1.0	
Reserve ...	6,500,000	9.2		Total Liabilities.	20,157,778		
Notes ...	2,837,318	4.0		National Bank of India.			
Acceptances &c	3,720,598	5.2		Paid-up Capital.	2,000,000		
Deposits, &c ...	57,164,727	80.6		Reserve ...	2,300,000		
Profit Balance ...	709,602	1.0		Total Capital and			
Total Liabilities.	70,932,745			Reserve ...	4,300,000	7.8	
Eastern Bank.				Notes ...	...	...
Paid up Capital.	995,780			Acceptances &c.	3,795,674	6.8	
Reserve ...	225,696			Deposits &c. ...	46,716,804	84.4	
Total Capital and				Profit Balance ...	539,032	1.0	
Reserve ...	1,221,476	9.4		Total Liabilities.	55,351,510		
Notes ...	...	...		P. & O. Banking Corporation.			
Acceptances ...	696,915	5.3		Paid-up Capital.	2,500,000		
Deposits, &c ...	11,010,684	84.4		Reserve ...	...	
Profit Balance ...	121,313	.9		Total Capital and			
Total Liabilities.	13,050,388			Reserve ...	2,500,000	40.7	
Mercantile Bank of India.				Notes ...	...	...
Paid-up Capital.	1,050,000			Acceptances, &c.	744,157	12.1	
Reserve ...	1,100,000			Deposits, &c. ...	2,822,391	46.0	
Total Capital and				Profit Balance ...	73,294	1.1	
				Total Liabilities.	6,139,842		

Total Liabilities—5 Banks 9,545,780. 7,125,696. 16,671,476. 10.1. 2,995,123. 1.8 9,776,938. 5.9. 134,533,841. 81.2 1,654,879. 1.0. 165,632,263.

ASSETS OF FIVE ANGLO-INDIAN BANKS, DECEMBER 3, 1920.

ASSETS.

Chartered Bank of India Australia
and China.

	£	%
Cash ...	11,126 379	15.7
Investments ...	4,886 091	6.9
Bills Discounted, Advances, &c.	50,588 861	71.3
Customers' Liabi- lity for Accept- ances, &c. ...	3,720,598	5.2
Bank Premises, &c. ...	610,816	.9
Total Assets ...	70,932,745	

Eastern Bank.

Cash ...	3,120,441	23.9
Investments ...	487 678	3.7
Bills Discounted, Advances, &c.	8,704 259	66.7
Customers' Liabi- lity for Accept- ances, &c. ...	696 915	5.4
Bank Premises &c. ...	41,095	.3
Total Assets ...	13,050,388	

Mercantile Bank of India

Cash ...	3,655,446	18.1
Investments ...	1,495,785	7.4
Bills Discounted, Advances, etc.	13,968,316	69.3

ASSETS,

	£	%
Customers' Liabi- lity for Accept- ances, etc. ...	819,594	4.1
Bank Premises, etc. ...	218,637	1.1
Total Assets ...	20,157,778	

National Bank of India.

Cash ...	10 619,019	19.2
Investments ...	3,554,529	6.4
Bills Discounted, Advances, etc.	37,069,530	66.9
Customers' Liabi- lity for Accept- ances etc. ...	3,795 674	2.9
Bank Premises, etc. ...	312,758	.6
Total Assets ...	55 351,510	

P & O. Banking Corporation†

Cash ...	1,525,776	24.9
Investments ...	644,957	10.5
Bills Discounted, Advances, etc.	3 222 391	52.5
Customers' Liabi- lity for Accept- ances, etc. ...	744,157	12.1
Bank Premises, etc. ...	2,561	...
Total Assets ...	6,139,842	

Total Assets—5 Banks 30,047,061. 18.1. 11,069,040. 6.7. 113,553 357.
68.6. 9,776,933. 5.9. 1,185,861 .7 165,632,263.

* Per cent of Total Liabilities or Assets, † March 31,

Below is given a brief account of some of the leading
exchange Banks, culled from the Statist, International Bank-
ing Section of December 10, 1921.

ALLAHABAD BANK LIMITED.

Head Office: Allahabad.

Capital:—

<i>Authorised</i> , 40,000 Shares of Rs. 100 each	Rs. 40,00,000
<i>Issued and</i> 25,000 Ord. Shares of Rs. 100 each	
<i>Subscribed</i> 15,000 6 per Cent. Pref. Shares of	
Rs. 100 each	40,00,000
<i>Paid up</i> , Rs. 100 per Share on Pref. and 16,000	
Ord., and Rs. 50 per Share on 9,000 Ord.	
Shares	35,50,000

This Bank, which was founded in 1865 with a paid-up capital of Rs. 1,90,830, operates under the Indian Companies Act. By 1870 the capital had risen to Rs. 3 lacs and by 1900 to Rs. 5 lacs. Progress has been particularly marked since the commencement of the present century. At the end of 1919 the paid-up capital was Rs. 30 lacs, and it was increased in the year to December 31 last to Rs. 35½ lacs. In December 1920 the P. & O. Banking Corporation offered to buy Rs. 100 fully-paid Ordinary shares for Rs. 436 each, and the new issue of 9,000 Ordinary shares (on which calls of Rs. 50 each had been paid) for Rs. 218 each, provided that at least seventy-five per cent. of the shareholders accepted the offer. More than ninety per cent. of the shareholders accepted, as the highest quotation ever reached by the Ordinary shares before the War was Rs. 365, though the break-up value of the shares had since undoubtedly increased.

At the outset of its career the Allahabad Bank had no branches, but it has now a large number, extending from Bombay to Calcutta. The present intention is to continue the Bank as a separate institution, with its headquarters in Allahabad, the purchase being dictated by the desire to give the P. & O. Banking Corporation a footing in the interior of India, which it would otherwise have taken years to work up.

The balance sheet shows deposits on December 31 last of nearly Rs. 935 lacs, as against upwards of Rs. 936 lacs twelve months before, the proportion of cash assets thereto having risen from about twenty-three per cent. to twenty-five and three-quarters per cent. Capital and reserve together equal 71 lacs, or seven per cent. of the total liabilities, which are now well over ten crores of rupees. Cash in hand and with banks, at 240 lacs, is considerably higher, the improvement being secured partly at the expense of investments, which have fallen from Rs. 61 lacs to Rs. 53 lacs approximately. Bills discounted, loans, and cash credits each also show a decline, while in the later balance sheet there is an additional item of Rs. 40 lacs representing short-term deposits with other banks.

Liabilities and Assets of The Allahabad Bank, Limited.

LIABILITIES.		Dec 31	ASSETS.		Dec. 31
		1920			1920
		Rs. %			Rs. %
Capital Paid up...	35,50,000		Cash in Hand	2,40,77,000	23.7
Reserve Fund ...	35,50,000		Investments ...	53,15,456	5.2
Paid-up Capital and Reserve ...	71,00,000	7.0	Loans at Call &c	5,18,98,907	51.0
Deposits, &c ...	9,34,77,279	91.9	Bills Discounted...	97,65,031	9.6
Miscellaneous ...	1,72,821	.2	Advances, &c. ...	85,45,457	8.4
Profit Balance ...	9,60,354	.9	Bank Premises, &c.	21,08,603	2.1
Total Liabilities	10,17,10,454	2	Total Assets	10,17,10,454	

* Per cent of Total Liabilities or Assets.

ALLIANCE BANK OF SIMLA LIMITED.

Head Office: Simla.

Capital:—

<i>Authorised</i>	.. .. .	Rs. 3,00,00,000
<i>Subscribed and Paid up, in 53,815 Preference</i>		
<i>and 35,000 Ordinary Shares of Rs. 100 each,</i>		
<i>fully paid</i>	.. .. .	88,81,500

In March 1874 the United Bank of India, Limited, which had commenced business in 1866 at Simla and Umballa, went into voluntary liquidation, and immediately afterwards its place was taken by the Alliance Bank of Simla, Limited, which acquired all the good business of the old Bank, whose shareholders it allowed to get fifty per cent. of their capital of Rs. 2½ lacs in shares of the new Bank. The new institution had from the outset a very successful career. The paid-up capital has been frequently increased and the reserve fund augmented, partly by allocations from profits and partly by premiums on share issues. Deposits have also grown continuously. From Rs. 3,77,446, in 1875 they rose to Rs. 79,70,955 in 1890 and Rs. 2,04,14,141 in 1900. On June 30, 1914, they amounted to Rs. 5,39,12,901, and at the date of the last balance-sheet—June 30, 1921,—reached the record figure of Rs. 16,27,94,570. This growth has taken place not only through natural business expansion, but also as a result of amalgamation. In 1916 the Punjab Banking Company and the Delhi and London Bank were absorbed. In the following year the Bank of Rangoon was acquired, as well as part of the interests of the Bank of Upper India. These transactions involved a large increase in the paid-up capital.

In addition to the head office at Simla, the Bank had forty-two branches and twelve sub-offices at the date of the last balance sheet. An office was also opened in London in March last as

a result of the sale to the Alliance of their banking business by Messrs. Boulton Brothers and Company, merchant bankers, of London, who had hitherto acted as London agents. By securing direct representation in London the Bank is thus enabled to handle the whole of its Indian clients' business as regards both home and foreign trade. In June last the authorised capital was increased from Rs. 1,00,00,000 to Rs. 3,00,00,000 by the creation of 2,00,000 new shares of Rs. 100 each. The existing capital was inadequate to meet the rapidly expanding business of the Bank and to compete with the large institutions resulting from amalgamation and with newly established banks.

The main items on the liabilities side of the balance sheet have already been commented on. On the assets side, cash in hand and with bankers, together with Rs. 35,00,000 at call and short notice, shows a substantial increase on the previous while investments, loans and advances, &c. and bills receivable figure, have also moved upwards.

Liabilities and Assets of The Alliance Bank of Simla.

LIABILITIES.	Year ended June 30 1921		ASSETS.	Year ended June 30 1921	
	Rs.	%		Rs.	%
Capital Paid up ...	88,81,500		Cash in Hand and		
Reserve Fund ...	42,00,000		with Bankers 4,39,05,096† 23.7		
Total Capital and			Investment ...	£ 91,79,199 15.8	
Reserve	1,30,81,500	7.1	Bills Discounted,		
Investment Depre-			Loans &c. ..	9,26,17,084 50.1	
ciation Reserve.	11,00,00	.6	Bills Receivable	1,06,84,193 5.8	
Deposit and Cur-			Bank Premises &c.	86,04,612 4.6	
rent Accounts	16,27,94,570	88.0	Total Assets	18,49,90,184	
Bills Payable ...	68,71,222	3.7			
Miscellaneous ...	--				
Profit-Balance ...	11,42,892	.6			
Total Liabilities	18,49,90,184				

* Per cent. of Total Liabilities or Assets.

† Including Rs. 35,00,000 at call and short notice.

MERCANTILE BANK OF INDIA, LTD.

Head Office: 15 Gracechurch Street, London, E.C. 3.

Capital:—

<i>Authorised</i>	..	..	..	..	£3,000,000
<i>Subscribed</i>	..	..	..	..	1,800,000
<i>Paid up</i>	..	..	..	..	1,050,000

The Mercantile Bank of India, which was formed in 1892 with a capital of £1,500,000, took over the assets and liabilities of the old Chartered Mercantile Bank of India, London and China, which was established by Royal Charter in 1858. The Mercantile Bank has offices in Bombay, Calcutta, Madras, Delhi and other principal Indian centres, and has also opened branches in Ceylon, Lower Burma, the Straits Settlements, China, Batavia and Mauritius. It obtained a footing in the last-named island by the purchase in 1916 of the Bank of Mauritius, for which the sum of £234,536 was paid.

The capital of the Bank is divided into "A," "B," and "C" shares, all of the first two categories having been issued. In 1919 the paid-up portion was increased by £187,500 by the issue of the remaining 15,000 "A" shares of £25 each, £12 10s. paid. During last year the authorised capital, which now stands at £3,000,000, was doubled by the creation of 300,000 "C" shares of £5 each, of which 60,000 were offered to holders of the first two classes of shares at a premium of a hundred per cent. As will be seen from our table, the paid-up capital is accordingly £1,050,000 and the reserve fund £1,100,000, the latter having benefited by the addition of the premium of £300,000 received on the issue of "C" shares.

With regard to the statement of accounts, the conversion rate followed in valuing the rupee assets and liabilities is 1s. 4d. per rupee, no alteration having been made even when the

rate of 10 rupees to the sovereign was introduced. Current, deposit and other accounts show an increase from £15,706,000 to £15,893,000, and acceptances on behalf of customers from £263,000 to £819,000. Bills payable have declined from £1,680,000 to £925,000. The disappearance of an item of £3,000,000, "loans payable against security," which figured in the 1919 balance sheet, is to be noted in connection with the contraction in the balance-sheet totals from £22,450,927 to £20,157,778. On the assets side, cash in hand and at bankers, plus bullion, at £3,655,446, shows a small decline in the proportion borne to total liabilities—from 18.9 to 18.1 per cent. Bills receivable, which are given separately from the small item of bills discounted, are returned at £4,357,000 as compared with £7,406,000 previously, owing to the contraction of exports from the East. On the other hand, loans receivable and advances, in their movement from £6,327,392 to £8,755,920, indicate the response to the demand for credit accommodation at a critical time. At £635,000, the item of sundry accounts, including amounts due by agents, shows a return to normal proportions from the £2,181,123 to which it was swollen in 1919 owing to extraordinary delays in transmission of telegraphic remittances.

Liabilities and Assets of the Mercantile Bank of India, Limited.

LIABILITIES		Dec. 31 1920		ASSETS.		Dec. 31 1920	
		£	%*			£	%
Capital Paid up...	1 050 000			Cash in Hand and			
Reserve Fund ...	1,100 000			at call, &c. ...	3 655,446	18.1	
Capital and Reserve	2,150 000	10.7		Investment ...	1,495,785	7.4	
Notes in Circulation	157 305	.8		Bills Receivable.	4,357,209	21.6	
Acceptances ...	819,594	4.1		Bills Discounted.	219,448	1.1	
Deposits, &c. ...	15,893,766	78.8		Loans Advances &c.	9,391,659	46.5	
Bills payable, &c.	925 475	4.6		Custs.' Liab. for			
Profit Balance. ...	211,688	1.0		Acceptances ...	819,594	4.1	
Total Liabilities	20,157,778†			Bank Premises ...	218,637	1.1	
				Total Assets	20 157 778†		

* Per cent. of Total Liabilities or Assets.

† The rupee assets and liabilities are converted at 1s. 4d. per rupee.

NATIONAL BANK OF INDIA, LIMITED.

Head Office : 26 Bishopsgate, London, E.C. 2.

Capital:—

Authorised and Subscribed, 160,000 Shares,

£25 each	£4,000,000
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<i>Paid up</i> , £12 10s. per Share	2,000,000
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The National Bank of India, which was established on September 29, 1863, had its head office originally in Calcutta, but in 1866 was registered in London under the Companies Act of 1862. The paid-up capital was then £466,500, and by 1891 it had been increased to £500,000, three successive bonus distributions to shareholders out of accumulated profits subsequently raising it to £1,000,000. In 1919 the authorised capital was raised from £2,000,000 to £4,000,000 by the creation of 80,000 new shares of £25 each, of which 40,000 were issued (£12 10s. paid) at a premium of £7 10s. per share. The remaining 40,000 shares of £25 each were issued in 1920 to shareholders, in the proportion of one new share for every three shares held, the price again being £20, inclusive of £7 10s. premium. The amount received from the premium was added to the reserve fund, which at the date of the last balance sheet amounted to £2,300,000.

On December 31 last the total of paid-up capital and reserve represented the respectable proportion of 7.8 per cent. of the aggregate liabilities. Liabilities in respect of deposit, current and other accounts, at £45,200,202, showed an increase of over £10,000,000 as compared with those at the end of 1919, but comparisons are rendered difficult by the fact that the rupee assets and liabilities in the earlier balance sheet were converted at the old parity of 1s. 4d. per rupee, and those for 1920 on the new statutory basis of 2s. According to the speech of the Chairman at the last meeting, the most important change is on the debit side of the account, where acceptances for customers have risen to £3,795,673 from £880,052 in 1919—an evidence of activity in exports to the East.

Liabilities and Assets of The National Bank of India Limited.

LIABILITIES		Dec. 31	ASSETS.		Dec 31
		1920			1920
		£	%*		£ %*
Capital Paid up...	2,000,000			Cash in Hand and at call, &c	10,619,019 19.2
Reserve Fund ...	2,300,000			Investments ...	3,554,529 6.4
Capital & Reserve	4,300,000	7.8		Bills of Exchange & Treasury Bills	16,682,779 30.1
Acceptances ...	3,795,674	6.8		discounts Loans and Advances.	20,386,751 36.8
Deposits, &c ...	45,00,502	81.7		Customers' Liabi- lity for Accept- ances ...	3,795,674 6.9
Bills, &c. Payable.	1,516,602	2.7		Bank Promises Account ...	312,758 6
Profit Balance ...	539,052	1.0			
Total Liabilities.	55,351,510†			Total Assets	55,351,510†

* Per cent of Total Liabilities or Assets.

† The rupee assets and liabilities have been converted at the rate of 2s. per rupee.

* Per cent of Total Liabilities or Assets.

| The rupee assets liabilities have been converted at the of 2s per rupee.

P. & O. BANKING CORPORATION, LIMITED.

(See Allahabad Bank, Limited.)

Head Office: 122 Leadenhall Street, E.C. 3.

Capital:—

Authorised, in 500,000 £10 shares.. .. £5,000,000

Subscribed and paid up. 250,000 Shares, fully

paid 2,500,000

The P. & O. Banking Corporation Limited, which has its head office in Leadenhall Street, London, was registered under the

Companies Acts on May 3, 1920. It opened for business towards the end of the following June, and at the date of the first balance sheet—March 31 last—had accordingly been in active existence for nine months. In that period branches had been opened in the West End of London and in India at Calcutta, Bombay, Madras and Karachi. Early in the present year a controlling interest was acquired in the Allahabad Bank, particulars of the arrangement being conveyed to shareholders by a special circular dated April 9. In lieu of receiving cash an option was given to Allahabad Bank shareholders to exchange their holdings for P. & O. Banking Corporation shares. The option was exercised to the extent of 9,416 shares in the P. & O. Banking Corporation, and these have, since the close of the accounts, been allotted out of the unissued capital.

The Corporation's preliminary expenses amounted in all to £57,680, including £50,000 paid to the Government in respect of taxation on the capital, of which £31,250 was met from the premium of 2s. 6d. per share. The authorised capital is £5,000,000, in 500,000 shares of £10 each, of which 250,000 have been issued and fully paid up. Under the Finance Act, 1920, the stamp duty was raised from 5s. to £1 per cent., and the patriotic action of the Corporation in deferring this issue, at the request of the Chancellor of the Exchequer, in order to facilitate the success of a Government issue—then being made, brought it within the period of operation of the Act, and it was mulcted of an additional £37,500. The Corporation's moral claim to consideration was, however, recognised, and a clause was inserted in this year's Finance Act, fixing the liability in such cases at the old rate, a refund accordingly resulting. The total liabilities of the Bank at the date of the balance sheet were £6,139,842, of which approximately equal proportions were represented by the

capital, £2,500,000, and by current deposit and other accounts, £2,662,691. Liabilities under acceptances, endorsements, &c., amounted to £712,960, and loans to £160,000. On the other side of the balance sheet, cash at bankers and in hand, £430,776, and money at call and short notice, £1,095,000, account for nearly one-fourth of the total assets, and bills discounted (including Treasury bills), £1,575,358, for a slightly higher proportion. Advances to customers on current and other accounts stand at £740,056, and investments at £644,957, of which £583,916 consists of the Corporation's holding (at cost) in the Allahabad Bank. Items in transit and sundry other assets, including exchange adjustment account, reached the large total of £906,976.

The whole of the premium derived from the share issue, £31,250, having been devoted to writing off part of the preliminary expenses, the balance of £26,430 was written off out of profits. Of the net amount, £73,295, £66,449 was earmarked for a dividend at the rate of nine per cent. per annum, less income tax, for the nine months.

Liabilities and Assets of the P. and O. Banking Corporation.

LIABILITIES.	March 31, 1921 £	ASSETS.	March 31 1921 £
Paid up capital ...	2,500,391	Cash at Bankers and in hand ...	430,776
Current, deposit and other accounts ...	2,662,391	Money at call and short notice ...	1,095,000
Loans ...	160,000	Investments * ...	644,957
Acceptances, endorsements, &c. ...	712,960	Bills discounted † ...	1,575,358
Bills for collection ...	31,197	Customers' liability for acceptances, &c. ...	712,960
Profit balance ...	73,294	Bills for collection ...	31,197
		Advances ...	740,056
		Other assets ...	909,538
Total Liabilities...	6,139,842	Total Assets ...	6,139,842

* Including shares in Allahabad Bank, at cost, £ 583,916.

† Including Treasury bills.

EASTERN BANK, LIMITED.

Head Office: 4 Crosby Square London, E.C. 3.

Capital:—

Authorised and Subscribed, 200,000 Shares of

£10 each	£2,000,000
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Paid up, £5 per Share (less calls unpaid,

Dec. 31, 1920)	995,780
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The Eastern Bank is comparatively a late comer amongst banking institutions, having been established in 1909 by the well-known Indian merchants, Messrs. E. D. Sassoon and Company, to facilitate Eastern—and particularly Indian—trade, and to discharge the functions both of an exchange bank and a bank of deposit. Shipments to and from India are financed, and advances made to natives and Europeans against merchandise & other securities. At the date of the last balance sheet the Bank possessed branches in Bombay, Calcutta, Colombo, Bahrein (on the Persian Gulf), and, along the watersheds of the Euphrates and Tigris, at Basra, Hillah and Amara, Bagdad and Mosul. The outbreak of the War occasioned great anxiety to the Bank, as it was largely interested in overseas business; but after the first shock a rapid recovery was made, and 1919 stands out as the most prosperous in the Bank's career. The contraction in balance-sheet totals from £16,676,409 on December 31, 1919, to £13,050,388 on December 31, 1920, is accounted for by a falling off in current and deposit accounts from £12,520,390 to £8,556,281, due to the heavy slump in commodity prices during 1920 and the fall in the value of the rupee. The later balance-sheet was calculated on the basis of a 1s. 5d. rupee, as compared

with a closing rate of 2s. 3d. at the end of 1919. If the latter rate had been maintained the total would have stood at £18,897,305 instead of £13,050,388.

During the twelve months covered by the last report the capital of the Bank was increased by the calling up of £1 per share, and when all calls have been paid the capital will stand at £1,000,000. In view of the fall in the sterling value of the rupee, too much significance cannot be attached to movements in the separate items shown in our tables. Despite the decline, the growth in profits has been continuous, the figure returned for 1920 being £121,363, as compared with £102,645 for 1919.

Liabilities and Assets of The Eastern Bank, Limited.

LIABILITIES.	Dec. 31		ASSETS	Dec 31	
	1920			1920	
	£	%		£	%
			Cash	3,120,441†	23·9
Capital Paid up ...	995,780		Investments	487,278	3·7
Reserve Fund ...	225,690		Loans Advances, &c.	4,784,859	36·7
Paid-up Capital & Reserve	1,221,476	9·4	Bills Discounted	—	—
Deposits &c. ...	8,556,281	65·6	Bills Receivable	3,219,400	30·0
Bills and Loans			Conts.' Liab. for		
payable, &c. ...	2,454,403	18·8	Acceptances	696,915	5·4
Acceptances	696,915	5·3	Office Furniture		
Profit Balance	121,313	·9	and Premises...	41,095	·3
Total Liabilities	13,050,388		Total Assets	13,050,388	

* Per cent. of Total Liabilities or Assets

† Including (1920) £530,000 (and 1919) £359,000 money at call.

CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.

Head Office; 38 Bishopsgate, London, E.C. 2.

Capital:—

Authorised, Subscribed and Paid up, 600,000

Shares of £5 each	£3,000,000
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The Royal Charter by which this Bank was incorporated dates back to 1853, since when it has been several times renewed, the last occasion being in 1909, when a further extension of thirty years was granted. According to the original prospectus, the objects were to provide banking facilities for the then rapidly expanding trade of Australasia, British East India, China, and other Eastern countries. The Bank has not yet extended its sphere of operation to Australasia, but in addition to its offices at Bombay, Calcutta, Delhi, Madras, and other Indian cities, it has branches or agencies in Burma, Siam, the Malaya States, Dutch East Indies, China, Japan and New York.

Throughout its career the progress of the Bank has been steady rather than sensational, and in 1900 the paid-up capital was £800,000 and the deposits about £9,000,000. The subsequent expansion in deposits was such that by December 1913 they were in the neighbourhood of £17,000,000; but this figure was speedily surpassed during the War, and at the date of the last balance sheet the liabilities on deposit, current and other accounts had nearly trebled, while total assets, which in 1913 were £27,243,396, had risen to £70,932,745. The great trading activity in the East during and immediately after the War, helped not only by the European demand for Eastern products, but by the tremendous increase in Oriental buying power due to the rapid rise in the value of silver, brought to the exchange banks a great wave of prosperity, in which the Chartered Bank, as we have seen, fully participated.

In 1919 the paid-up capital of the Bank was raised from £1,200,000 to £2,000,000, and in October 1920 from the latter figure to £3,000,000, by the issue of 200,000 new shares of £5 each, which were offered to existing shareholders, at a premium of £2 10s. a share, in the proportion of one for every two of the 400,000 £5 shares into which the 100,000 £20 shares which made up the capital of £2,000,000 were subdivided. By the sub-division greater marketability was ensured, and the premium, amounting to £500,000, was carried to the reserve fund, which stood, in December last at the very high figure of £3,500,000, being equivalent, with the paid-up capital, to 9.2 per cent. of the assets. Despite the severe drop in prices during 1920, fixed deposits and current and other accounts were about one million pounds higher than at the end of 1919. The liability under both loans payable and bills payable was considerably reduced. On the assets side, cash in hand and at bankers fell from £11,170,332 to £9,437,946, bullion on hand and in transit from £3,437,387 to £1,385,432, and bills of exchange, including Treasury bills, from £26,535,498 to £21,131,473. On the other hand bills discounted and loans are up from £17,561,394 to £28,585,930, which, combined with the increase in acceptances from £1,679,929 to £3,720,598, shows that the Bank played its part in financing trade to the full extent of its resources.

Gross profits, after deduction of excess profits duty and corporation profits tax, show a satisfactory expansion to £1,609,801, and the smaller increase in expenses leaves the net profits £300,000 higher than in the earlier year.

*Liabilities and Assets of The Chartered Bank of India, Australia
and China.*

LIABILITIES.	Dec 31		ASSETS.	Dec. 31	
	1920			1920	
	£	%*		£	%*
Capital Paid up.	3,000,000		Cash and Pullion.	11,126,379	15·7
Reserve Funds ...	3,500,000		Govt. and Other		
Paid-up Capital			Securities ...	4,886,091	6·9
and Reserve ...	6,500,000	9·2	Bills of Exchange	21,131,473	29·8
Notes in Circu-			Bills Discounted,		
lation ...	2,837,818	4·1	and Loans ...	29,457,388	41·5
Acceptances ...	3,720,593	5·2	Custrs Liab for		
Deposits, &c. ...	51,759,693	73·0	Acceptances ...	3,720,593	5·2
Bills, Loans Pay-			Bank Promises,		
able, &c ...	5,405,034	7·6	Account ...	610,816	·9
Profit balance ...	709,601	1·0	Total Asse's ...	70,932,745	
Total Liabilities	70,932,745				

* Per cent of Total Liabilities for Assets

The Indian Joint Stock Banks.

Genuine Banking in India on the western model is relatively of recent origin. It was in 1906, following upon the great wave of Swadeshism that swept over the country in 1905 in consequence of Lord Curzon's short lived and ill-advised attempt to partition the homogeneous province of Bengal, that Indian Banking proper may be said to have commenced with the establishment of the Bank of India Ltd. and the Indian Specie Bank. The last named and many others succumbed to temptations incidental to the business of banking and have vanished from the scene of operations. But the distress and distrust caused by the failures of 1913-14 have to a large extent been overcome by the wave of prosperity in war time; and judging from the statistics of such institutions as the Bank of India or the Central Bank, Indian banking seems once again to be in the ascendant. The following statement shows the position of the principal Indian Banks.

LIABILITIES OF OTHER INDIAN BANKS, 1920-21.

LIABILITIES.			LIABILITIES.		
Allahabad Bank.			Central Bank of India.		
	Rs	%		Rs.	%
Paid-up Capital.	35,50,000		Paid-up Capital.	49,99,600	
Reserve ...	35,50,000		Reserve ...	20,00,000	
Paid-up Capital and Reserve ...	71,00,000	70	Paid-up Capital and Reserve ...	69,99,600	47
Acceptances, Bills Payable &c. ...	...	...	Acceptances, Bills Payable, etc. ...	28,10,461	16
Deposit and Current Accounts	9,31,77,279	91.9	Deposit and Current Accounts	13,73,28,052	92.9
Miscellaneous ...	1,72,821	2	Miscellaneous ...	...	...
Profit Balance ...	9,60,354	9	Profit Balance ...	7,52,287	5
Total Liabilities	10,17,10,454		Total Liabilities	14,78,90,100	
Alliance Bank of Simla.			Punjab National Bank.		
Paid-up Capital.	88,81,500		Paid-up Capital.	20,13,802	
Reserve ...	42,00,000		Reserve ...	15,83,352	
Paid-up Capital and Reserve ...	1,30,81,500	71	Paid-up Capital and Reserve ...	35,94,154	12
Acceptances, Bills Payable, etc. ...	63,71,222	37	Acceptances, Bills Payable, etc. ...	16,84,403	39
Deposits and Current Accts.	16,27,94,570	85.0	Deposit and Current Accounts.	3,79,20,488	86.7
Miscellaneous ...	11,00,000	6	Miscellaneous ...	3,19,095	7
Profit Balance ...	11,42,892	6	Profit Balance ...	2,25,462	5
Total Liabilities	18,49,90,184		Total Liabilities	4,37,43,602	
Bank of India.			Tata Industrial Bank.		
Paid-up Capital	1,00,00,000		Paid-up Capital.	2,23,68,200	
Reserve ...	70,00,000		Reserve ...	15,00,000	
Paid-up Capital and Reserve ...	1,70,00,000	13.6	Paid-up Capital and Reserve ...	2,38,68,250	14.1
Acceptances, Bills Payable, etc. ...	2,26,498	2	Acceptances, Bills Payable, etc. ...	1,42,16,536	8.4
Deposit and Current Accounts.	10,56,67,635	84.9	Deposit and Current Accounts.	13,07,07,793	77.0
Miscellaneous ...	3,93,201	3	Miscellaneous ...	11,500	...
Profit Balance ...	12,30,512	1.0	Profit Balance ...	8,52,284	5
Total Liabilities	12,45,17,876		Total Liabilities	16,96,56,363	

Total Liabilities - Banks 5,18,13,152 1,98,30,352 7,16,43,504 93
2,58,09,120 33 66,73,95,817 86.5 19,96,17.2 51,63,821 77.7 77,95,03,871

* Per cent of Total Liabilities or Assets.

ASSETS OF OTHER INDIAN BANKS, 1920-21.

ASSETS.

Allahabad Bank.

	Rs.	%
Cash ...	2,40,77,000	23.7
Investments ...	53,15,456	5.2
Loans, Advances, and Bills Dis- counted ...	7,02,09,395	69.0
Custs' Liab on Acceptances &c	...	...
Bank Premises, &c ...	21,08,603	2.1
Other Assets ...	...	...
Total Assets ...	10,17,10,454	

Alliance Bank of Simla.

Cash ...	4,39,05,096	23.7
Investments ...	2,91,79,199	15.8
Loans, Advances and Bills Dis- counted ...	9,26,17,084	50.1
Custs' Liab on Acceptances &c	...	...
Bank Premises etc. ...	86,04,612	4.6
Other Assets ...	1,06,84,193	5.8
Total Assets ...	18,49,90,184	

Bank of India.

Cash ...	2,19,53,255	17.6
Investments ...	2,13,94,079	17.2
Loans, Advances, and Bills Dis- counted ...	8,08,80,92	64.9
Custs' Liab on Acceptances, etc.	2,26,498	.2
Bank Premises, etc. ...	63,652	.1
Other Assets ...	...	...
Total Assets ...	12,45,17,876	

ASSETS

Central Bank of India.

	Rs.	%
Cash ...	2,09,91,384	14.2
Investments ...	3,03,53,846	20.5
Loans, Advances, and Bills Dis- counted ...	8,98,93,582	60.3
Custs' Liab on Acceptances, etc.	26,14,403	1.8
Bank Premises, etc. ...	38,58,039	2.6
Other Assets ...	1,79,141	.1
Total Assets ...	14,78,90,400	

Punjab National Bank.

Cash ...	96,03,064	22.0
Investments ...	43,53,582	10.0
Loans, Advances, and Bills Dis- counted ...	2,77,33,693	62.1
Custs' Liab on Acceptances, etc.	16,84,403	3.9
Bank Premises, etc. ...	3,62,855	.8
Other Assets ...	...	...
Total Assets ...	4,37,43,602	

Tata Industrial Bank.

Cash ...	3,65,08,676	21.5
Investments ...	2,92,52,858	17.2
Loans, Advances, and Bills Dis- counted ...	7,51,31,425	44.3
Custs' Liab on Acceptances, etc.	1,32,10,720	7.8
Bank Premises, etc. ...	26,42,870	1.6
Other Assets ...	1,29,09,814	7.6
Total Assets ...	16,96,56,363	

Total Assets—6 Banks 15,10,38,475 20.3 11,98,49,020 15.5 43,64,65,576 56.5 1,77,36,029 2.3 1,76,46,631 2.3 2,37,73,148 3.1 77,25,08,879

* Per cent, of Total Liabilities or Assets,

Comparing their business with that of their most formidable competitors, the Exchange Banks, we find that while the Indian Banks' cash holdings amounted to 20.3 per cent. of their total liabilities, those of the corresponding Exchange Banks amounted to 18.1 per cent. With the Indian Banks the Bills discounted, loans and advances aggregated 56.5 per cent; and other investments amounted to 15.5 per cent. of the total assets; while the same items in the case of the Exchange Banks were 68.6 per cent. and 6.7 per cent. respectively. We cannot, however, from these figures arrive at the conclusion that the Exchange Banks are conducted on relatively unsound lines; not only the figures given above are those as on a particular day, and not the average of such operations; and, therefore, cannot be reasonably regarded as a fair test of the business. There is also the factor that the exchange bank transactions are not purely or exclusively Indian transactions, which accordingly renders any comparison hopelessly unsafe from the outset. They both, however, agree in taking only the orthodox kind of banking business—safe financing of commerce. The former occupy themselves chiefly with the overseas trade the latter with the local trade of India.

• A brief account of the most important Indian Banks may be appended to serve as a companion reader to the similar account of the principal exchange banks.

The Central Bank of India, Limited.

Capital:—

Authorised, 200,000 shares of Rs. 50 each	1,00,00,000
Issued and subscribed	1,00,00,000
Paid up	49,991.00

This Bank was established in December 1911 by a few Bombay financiers, who realised the necessity of directing Indian national activities into economic channels. The financial

crisis of 1913, which, beginning in the Punjab spread over the whole of Western India, left the Bank practically unscathed. Since then its progress has been uninterrupted. The current and fixed deposits which at the end of 1914 were over Rs. 30 lakhs, amounted on June 30, 1921 to nearly 13.75 crores. During the same period the paid up capital has increased from Rs. 15 lakhs to Rs. 49.99 lakhs and the reserve from Rs. 1½ lakh to Rs. 20 lakhs. The following statement shows the position of the Bank on June 30, 1921.

Liabilities and Assets of The Central Bank of India, Limited.

LIABILITIES.				ASSETS.			
Dec. 31 1921§				Dec. 31 1921§			
	Rs	%*			Rs.	%*	
Capital Paid up.	49,99,600			Cash	1,83,41,384	12·4	
Reserve ...	20,00,000			Money at Call...	26 50,000	1·8	
Paid-up Capital & Reserve ...	69,99,600	4·7		Investments .	3,03,53 846	20·5	
Deposit and Cur- rent Acct. &c.	13,73 28,652	92·9		ills Discounted	1,92,07,954	13·0	
Bills Payable ...	1,96,053	·1		Loans and Ad- vances ...	7,06,85,328	47 8	
Acceptances † Loans Payable.	3,68,750†	·3		Bills Receivable.	22,45,658	1 5	
Bills for Collec- tion	22,45,651	1·5		Custrs'. Liab. for Acceptances ...	3,68,750	·3	
Profit Balance ..	7,52,287	·5		Other Assets. ...	40,37 180	2 7	
Total Liabilities.	14,78,90,400						

BANK OF INDIA, LIMITED,

Head Office: Oriental Buildings, Bombay.

Capital:—

<i>Authorised</i> , 2 lacs Shares at Rs. 100 each	Rs. 2,00,00,000
<i>Subscribed</i> , 2 lacs Shares at Rs. 100 each	.. 2,00,00,000
<i>Paid up</i> , Rs. 50 per Share .. ..	.. 1,00,00,000

The Articles of Association of the Bank of India, which was founded in September 1906 by Bombay business men and others prominent in the municipal life of the city, with the primary object of financing local trade, were largely modelled on the old Presidency Banks Act. Dealings in foreign exchange were accordingly prohibited, as well as lending on land mortgages or on the shares of joint-stock companies. It was obviously intended at first to confine the institution to purely Indian business, but some of the restrictions were found too irksome, and those relating to advances against shares and mortgages were removed in 1912 on a revision of the Articles. Outside the head office in Bombay the Bank has only two branches—one in Ahmedabad and the other at Mombasa, in British East Africa. Despite the limited sphere of its operations progress, especially since 1916, has been very rapid. Since 1918 the capital has been doubled, and the paid-up portion now stands at Rs. 1,00,00,000, making, with the reserve fund of Rs. 70,00,000, 13.6 per cent. of the total liabilities. On June 30 last, the date of the half-yearly statement, deposit and current accounts stood at Rs. 10½ crores—an increase of nearly Rs. 1 crore as compared with the previous December, and of over Rs. 3 crores as compared with December 1919. On the assets side, cash in hand and at bankers, at Rs. 2,19,53,255, though showing a substantial decline on the six months, exhibits the unusually high proportion of 17.6 per cent. to total liabilities. Investments have risen substantially, as, owing to the demand for banking accommodation for trading and other interests, have also loans and advances; but bills discounted have fallen, in consequence of the decreased movement of goods into consumption.

For the half-year to June 30 last the average Bank rate was 6.18 per cent., as compared with 6.98 per cent. for the corresponding period of 1920. : Despite the lower rate, which was reflected in the discount and general market, and the unsettled condition of trade, the net profit realised was Rs. 11,13,028. The dividend is maintained at the rate of four-

teen per cent. per annum, to which it was increased in 1919- from the twelve per cent. paid in the previous year.

Liabilities and Assets of The Bank of India Limited.

LIABILITIES.			ASSETS.		
	Dec. 31 1921 †			Dec. 31 † 1921	
	Rs.	%		Rs.	%
Capital Paid-up.	1,00,00,000		Cash	2,19,53,255	17.6
Reserve Fund ...	70,00,000		Investments	2,13,94,079	17.2
Paid-up Capital			Bills Discounted.	96,07,546	7.7
and Reserve ...	1,70,00,000	13.6	Loans and Ad-		
Deposit and Cur-			vances	7,12,72,846	57.2
rent Accounts...	10,56,67,635	84.9	Bills per contra ...	2,26,498	.2
Bills for Collec-			Office Furniture		
tion ...	2,26,498	.2	and Furniture ...	63,652	.1
Rebate and Mis-			Total Assets	12,45,17,876	
cellaneous ...	3,93,201	.3			
Profit Balance ...	12,30,542	1.0			
Total Liabilities	12,45,17,876				
	1918			1918	
Capital Paid-up.	50,00,000		Cash	1,19,22,685	21.5
Reserve Fund ...	12,00,000		Investment	62,99,606	11.4
Paid up Capital			Bills Discounted	35,33,500	6.4
and Reserve ...	62,00,000	11.2	Loans and Ad-		
Deposit and Cur-			vances	3,34,93,158	63.6
rent Accounts ...	4,81,60,065	87.9	Bills (as per contra)	—	—
Bills for Collection	—	—	Office Furniture		
Rebate and Mis-			and Fitting &c...	30,421	.1
cellaneous ...	3,49,297	.6	Total Assets	5,52,79,370	
Profit Balance ...	5,70,008	1.1			
Total Liabilities.	5,52,79,370				
	1913			1913	
Capital Paid up...	50,00,000		Cash	63,07,051	22.4
Reserve Fund ...	5,00,000		Investment	30,35,996	10.0
Paid-up Capital			Bills Discounted.	24,54,300	8.7
and Reserve ...	55,00,000	19.5	Loans and Ad-		
Deposit and Cur-			vances	1,63,64,854	58.1
rent Accounts ...	2,22,81,987	79.1	Bills (as per contra)	—	—
Bills for Collection	1,78,620	.6	Profit Balance	28,342	.1
Profit Balance ...	2,29,936	.8	Total Assets	2,81,90,543	
Total Liabilities	2,81,90,543				

Per cent of Total Liabilities or Assets

† June 30

THE TATA INDUSTRIAL BANK, LIMITED.

Head Office: Wallace Street, Bombay.

<i>Authorised</i>	Rs.	12,00,00,000
<i>Subscribed,</i>	Rs.	7,58,73,525
<i>Paid up,</i>	Rs.	2,23,73,335

The Tata Industrial Bank is a product of the War period, its head office having been opened for business in Bombay on April 4, 1918. On the 15th of the same month the Calcutta branch commenced operations, and in the following September a branch was opened in Hyderabad (Deccan). The paid-up capital of the Bank shown in the first balance sheet was Rs. 70,01,392, and it has been increased to Rs. 2,23,73,33, commensurate with the enlarged sphere of operations and the rapidly growing business. Branches are now established at London, Cawnpore, Delhi, Lucknow, Madras and Rangoon, in addition to those above-mentioned.

At the date of the balance sheet—March 31, 1921—the liabilities on deposit and current accounts amounted to Rs. 11,96,00,000, as compared with Rs. 9,31,00,000 a year previously. Cash in hand and at bankers increased from Rs. 2,31,04,400 to Rs. 3,65,08,676 (inclusive of bullion), and investments from Rs. 2,01,55,719 to Rs. 2,92,52,858. Substantial addition to loans, advances and bills discounted, thereby raised to Rs. 7,51,425, reflects the expansion of the business, the balance-sheet totals having risen by nearly Rs. 4½ crores in the same interval.

Liabilities and Assets of the Tata Industrial Bank, Limited.

	Mar. 31, 1921. Rs.	Mar. 31, 1920. Rs.
LIABILITIES.		
Capital paid up	2,23,68,250	1,51,14,217
Reserve fund	15,00,000	5,00,000
Bills payable, &c.	10,05,816	67,21,065
Acceptances, &c.	1,32,10,720	61,62,492
Deposit and current accounts ..	11,96,45,367	9,31,27,032
Due to agents and correspondents	1,10,62,426	27,41,756
In advance of calls, &c.	11,500	64,780
Profit balance	8,52,284	10,67,056
	<hr/>	<hr/>
Total Liabilities	16,96,56,363	12,54,98,398
ASSETS.		
Cash on hand and with bankers ..	3,65,08,676	2,31,04,400
Investment	2,92,52,858	2,01,55,719
Bills receivable	1,28,13,375	63,27,986
Loans, advances and bills discounted	7,51,31,425	6,80,74,630
Clients' liability for acceptances, &c.	1,32,10,720	61,62,492
Due by agents and correspondents	96,442	3,45,464
Bank premises, &c.	26,42,870	13,27,707
	<hr/>	<hr/>
Total Assets	16,96,56,363	12,54,98,398

Alone among the Banking institutions of India, the Tata Industrial Bank Ltd. was specifically and definitely founded to aid in the development of Indian industry. In view of the history of four years as well as of the recently announced decision of the Directors to suspend the industrial side of the Bank's operations, it may be doubted if the promoters and proprietors of this institution had really understood the basic principles of industrial financing. The name of the Tatas, coupled with the designation of the Bank, led to extravagant expectations, not only as to the future of the Bank itself,

but also as to the future of the entire Indian industry. Judging from the sharp rise in the premium on the Bank shares in 1919-20 (The 7½ rupee share was at one time quoted at over 90) there is reason to believe that if the promoters did not quite understand the fundamental principles in industrial finance, neither did the public, who in turn has played the role of the supporters and mentors, the dupes and tormentors of the Tatas. But the promoters and directors have been to blame more than the disillusioned and therefore infuriated public. The only kind of industrial finance, ever attempted by this Bank on a large scale, was the underwriting or purchasing of shares in new industrial ventures fathered by the Tatas. The action may have a precedent in the German practice; but it was bound to be looked upon with distrust the moment any one of the sponsored undertakings showed signs of decline, the moment any detractor of the principal proprietors could get a semblance of justification for the cry that the Bank was becoming a close corporation. The Tatas were unfortunate or ill advised in some of their new industrial ventures. And the policy of steadily, deliberately ignoring the public criticism and the shareholders' protests against overstaffing the Bank with extravagantly paid, and unsympathetic European agency naturally exposed the directors and managers to the charge of a close corporation—which they made no effort to rebut. The story of the closure of the Bombay Share Bazar branch of this Bank, attempted to be elicited by dint of hard questioning by one of the shareholders at the last annual general meeting of the Bank, would, if the allegations or implications of these questions could be substantiated, reflect little glory on the supervising or inspectorial staff of the Bank. The directorate seems to have considered it a point of prestige not to submit to the clamour for reducing the European agency in their service; and, rather than reconstitute the Bank on a sounder footing of industrial finance, have pre-

ferred to close down that department of the Bank's activities altogether.

But the transition from a primarily industrial bank to an exclusively commercial Bank would have proved almost impossible if the Tata Bank had not been accustomed, even while styling itself an Industrial Bank, to deal in the more orthodox lines of banking. The Bank had dealt in exchange business long before the decision to suspend industrial operations was announced. It is immaterial to the present discussion to discuss how far the jealousy of the exchange banks proper may have contributed to the decline in the prosperity of this institution as observed in the last balance sheet. The point worth noticing here is that the exchange business is entirely foreign to the very *raison d'être* of such an institution. So too the business of ordinary loans, overdrafts, acceptances &c. which, if not entirely foreign to such a Bank, results nevertheless in such a diversion of the funds of the Bank as might seriously handicap it in the discharge of its more important business. The Directors of the Bank—now that the thing has happened,—may, indeed, congratulate themselves on their sagacity and foresight in having from the beginning kept two strings to their bow, which has enabled them, apparently without much effort, to pass over from industrial to commercial finance. But, however much they might congratulate themselves from the stand-point of profit-making for the Bank, they cannot avoid the criticism that the primary object of the institution was never properly and adequately prosecuted, so that at last it has had to be definitely abandoned.

But the abandonment of its primary object by the Tata Industrial Bank does not make the need for a sound system of industrial finance the less acute. It is a national need, which no group of private individuals, however rich and influential,

can meet if they think only or even principally of profit for themselves. Proper financing of the industries of a nation requires patience and disinterestedness which private individuals do not possess or cannot sustain. It demands the command of considerable resources which may be locked up for a length of time that would seem dangerous to those accustomed to short term loans and rapid turn over characteristic of commercial banking. It demands creation of a new type of guaranteed security, co-ordinated with the best gilt-edged securities in the market, which no independent uncontrolled private institution can be allowed to meddle with. The only hope, therefore, for a proper system of industrial financing in India is to be found either in a suitable expansion of the Imperial Bank of India, or in the undertaking of this task by popular initiative on a national basis, with the guaranteed elimination of the predatory profit-seeking instinct of uncontrolled individualism.

Generally speaking the Indian Joint Stock banks aim at attracting Indian deposits to finance the internal trade of India. On fixed deposits they offer as much as 6 per cent. interest, and even on current account deposits they give between 2 and 3 per cent. subject to certain conditions of a minimum monthly balance. The Imperial Bank has all its current account deposits free of interest; and even the terms offered by the Exchange Banks are proportionately far too strict. But if the Indian Banks could do permissible but more lucrative business with the funds so attracted, there would be no reason to criticise these terms merely because on a comparison they seem to be unduly favourable. There is, however, no definite information as to the precise nature of the business transacted by these banks beyond that indicated in the collective and individual tables already presented. Probably the actual business of each bank varies with its clientele, its general environment, and the connections of its founders or managers. It is occasionally rumoured even now that one or

the other bank indulges more than is quite strictly proper for it in financing speculators on the Stock Exchange or cotton green or the bullion market. If the detailed accounts of each bank could be published, perhaps the proportion of cash credits or over drafts and loans allowed to customers would appear to be astoundingly large; while a close scrutiny of the security on which such advances are made might reveal a deplorable lack of attention to the accepted rules of sound banking. For the last decade nearly there has been no great banking disaster in India, so that it is impossible to say to what extent the continued prosperity of Indian banks have made them relatively indifferent to the value of caution and conservatism in bank management. But if we are to judge from the revelations in connection with the banking failures of ten years ago it must be admitted the earlier Indian banks did engage in business not strictly within the purview of sound commercial banking. Of course, the failures, when they occurred, were often caused directly by the criminal mismanagement and wilful dishonesty of individual managers in isolated cases. But speaking generally, the charge must be admitted that the supreme direction of the Banks was left in hands, which, however distinguished in other walks of life, could make no pretensions to a sound knowledge of banking practice. It was the inexperienced directorate which at all made criminal mismanagement possible. It may, indeed, be doubted even now if the lessons of 1912-13 have been learnt well enough to preclude the possibility of a recurrence of the disaster due to similar reasons. The tendency to select bank directors from among eminent business men with vast commitments in commerce and industry is not unlikely to involve their banks into the vortex of speculative activities which is as the breath of their nostrils to the most prominent among the business men in India. The supposed cure of the evil renders the malady worse than ever. For the employment of Europeans to the

superior posts on the staff of the banks is no guarantee, by itself, of sturdy independence in management even against the wishes of the directors. If the European servants of the Indian banks were all men of special outstanding abilities, perhaps the subtle influences which affect and determine the mystery of the race psychology in this country might embolden a European to oppose and withstand successfully, where an Indian of the like status might be snubbed into surrender. But the European managers of Indian banks are rarely men of the moral stature and banking experience that could justify these hopes in general. The notorious case of the Farrow's Bank in England teaches at least one lesson beyond possibility of misunderstanding: European management and supervision is not so experienced, painstaking and efficient as the unreasoning admirers of the white skin make them out to be.

We need not dwell at length upon those unregistered indigenous banking houses in India which act as intermediaries between the formal recognised banks and the mofussil producer or trader. In times gone by the "shroff" or native banker used to change money, to give letters of credit from one place to another, and even on occasion to finance impecunious rulers. But to-day his principal function is that of a middle-man. He buys the inland trader's bill at a fairly high rate of discount for ready money; and, then, if he should feel himself embarrassed momentarily, he can take these bills to the Imperial Bank or any of the other bank, who would be only too glad to rediscount bills bearing a shroff's endorsement. The Bill-discounting is done by the shroff out of his own monies; but it may be that he occasionally accepts deposits. Besides investing in Hundies or bills the shroff would also advance on mortgage of immovable property—a kind of business usually regarded as not permissible to the ordinary banks—and carry on a thriving business of agency for commission as well as speculation in all kinds of produce.

CHAPTER III.

SOME SPECIAL KINDS OF BANKS IN INDIA.

Besides the Banks already noted, we may mention a special kind of banking institutions which have been specifically created for a special object in view, and are therefore confined to the discharge of well-defined functions. Their inclusion among banks in India is, however, not merely a matter of courtesy; it is due to the similarity of business transacted by these institutions to the banking business in general. It is due also to recognition of the fact, that, banking being an indispensable adjunct for the proper development of our national resources, specialised kinds of agrarian and industrial banks must be established if we are to have a rapid programme of all-round development. The Co-operative Credit Societies may not immediately suggest a close affinity with the kinds of banks instanced above; but in our judgment they are the kind of institution from which the more fully developed agrarian or industrial bank might ultimately emerge. A brief study, therefore of these institutions will not be out of place in a work concerned with the study of Indian banking.

The co-operative credit society was first established in India under Act X of 1904 which permitted:—

(1) Any ten persons living in the same village or town or belonging to the same class or caste to register themselves as a Co-operative Society for the encouragement of thrift and self help among the members.

(2) The main business of a Society was to raise funds by deposits from members and loans from non-members, Government and other Co-operative Societies, and to distribute money thus obtained by way of loans to members, or with the special permission of the Registrar, to other Co-operative Credit Societies.

(3) The organization and control of Co-operative Credit Societies in every Presidency were put under the charge of a Special Government Officer called the Registrar of Co-operative Credit Societies.

(4) The accounts of every society were to be audited by the Registrar or by a member of his staff free of charge.

(5) The liability of a member of a society was to be unlimited in the case of a Rural Society.

(6) No dividends were to be paid on the profits of a rural society, but the profits were to be carried at the end of the year to the Reserve Fund, although when this fund had gone beyond certain limits fixed under the bye-laws, a bonus might be distributed to the members.

(7) In the case of Urban Societies no dividend was payable until one-fourth of the profits in a year were carried to the Reserve Fund.

Co-operative Societies' Act—As co-operation progressed in the country defects were noticed in the Co-operative Credit Societies' Act and these were brought to the notice of Government. The need for a freer supply of capital and for an improved system of supervision had led to the formation of various central agencies to finance and control the original credit societies and these central agencies ran all the risks attendant on a status unprotected by legislation. The Government of India, recognising the need for removing these defects, decided to amend the old Act, and a Bill embodying the essential alterations proposed was introduced in the Imperial Legislative Council, and after a few amendments it emerged from the Council as the Co-operative Societies' Act (II of 1912) replacing Act X of 1904. The outstanding features of the new Act were as follows:—

(a) It authorised the formation of societies for purposes other than credit, which was possible under the old Act only.

with the special permission of the Local Government. This extension of Co-operation to purposes other than credit marks an important stage in its development in India.

(b) It facilitated the growth of central agencies by insisting on a limited liability by means of a special clause about the registration of a society one of whose members is a registered society.

(c) It empowered the Local Government to frame rules and alter bye-laws so as to put restrictions on the dividends to be declared by societies and allowed them the discretion to sanction distribution of profits in the case of unlimited liability societies to their members.

Composition of the Capital of Agricultural Societies.—

On the organization of agricultural credit was necessarily concentrated the attention of the promoters, for it presented a far more important and far more difficult problem than industrial credit. There was a great variety of types among the agricultural societies. The commonest type, as in the Punjab, Burma, and the United Provinces, is the unlimited liability society with a fee membership and a small share capital, the share payments to be made in instalments. In some cases the system insists on compulsory deposits from members before entitling them to enjoy the full privileges of membership. The system in Bombay, Bengal, and the Central Provinces is entirely different, there being no share-capital but only a membership-fee. Part of the working capital is raised by deposits from members and other local sympathisers, but the bulk of it in all provinces is obtained by loans from Central and other co-operative societies. In all the Presidencies, the Government set apart in the initial stages every year a certain sum to be advanced as loans to newly started co-operative societies, usually to an amount equal to the deposits from members, raised by a society. State aid in

the form of money doles has now become an exception rather than the rule. For agricultural societies generally, the main sources of capital are shares, deposits of members, deposits of non-members and loans from central societies. The following statement shows the proportion of each:

Number of Agricultural Societies:	36,299		
Membership of " "	11,75,109		
Share Capital " "	Rs. 1,22,26,576	or 12.6 p.c.	
Loans & Deposits from Members	58,20,595	" 6	"
" " Non-members	63,34,524	" 6.6	"
" " Societies	6,78,089	" 0.6	"
" " Provincial or central Banks	5,63,46,982	" 58.5	"
" " Government	21,60,910	" 2.1	"
Reserve Fund	1,28,82,039	" 13.3	"
Total Working Capital	9,64,89,706		
Profit for the Year	30,78,118		

Constitution of Agricultural Societies.—The typical Agricultural Society in India corresponds to the Raiffeisen society, the management being gratuitous, the profits indivisible, and area of work limited. The managing committee of a society consists of 5 to 9 members of the society, the chairman being usually the leading person in the village. The daily work of the society is carried on by the secretary, but the managing committee supervises the work and has alone the power to admit new members, to receive deposits, arrange for outside loans, grant loans to members and take notice of defaulters. The accounts of the society are kept by the secretary and the necessary forms, papers, and books are usually supplied from the Registrar's office to simplify the work of the secretary. The books are kept according to the rules framed by the Local Government and are open to inspection by important local officials and the Registrar and his staff. The accounts are audited, at least once a year, by the auditors working under the Registrars of Co-operative Societies and the

Societies are inspected from time to time by honorary or paid Inspectors. The loans are mostly given on the security of two co-members. Under the Act, Societies are allowed under certain conditions to advance loans on the hypothecation of moveable or immovable property, and there is nothing unco-operative in this so long as personal security, which is the central principle of co-operation, is given and the borrower's property is recognized as only a secondary or collateral protection. Mortgages are taken occasionally, especially in the case of long term loans and loans for the liquidation of old debts.

The supreme seat of authority in co-operative societies is the general body of members assembled in general meetings. At the annual general meeting held at the close of the co-operative year, the accounts are submitted, the balance-sheet passed and the managing committees with the chairman and secretaries are elected. The general meeting fixes in some provinces the borrowing limit of individual members, lays down the maximum amount up to which the Managing Committee may borrow during the ensuing year, dismisses members for misconduct or serious default, and settles the rates of interest for loans and deposits. All the net profits of the society are annually carried to the Reserve Fund, which is indivisible, that is, incapable of distribution as dividend or bonus, which cannot be drawn upon without the sanction of the Registrar, and which must be invested in such a manner as the Registrar prescribes. It is intended to meet unforeseen losses and to serve as an asset or security in borrowings. Except in the Central Provinces and Madras, the Reserve Funds of primary societies are generally utilised as an addition to their working capital, though steps are being taken in some parts of the country to stop this practice and to insist on the Reserve being kept entirely apart from the working capital and invested in Government securities or placed as floating deposits in Central Banks. The general trend of opinion

seems to be that primary societies should be free to utilize their reserve funds as part of the working capital except when they have considerable outside deposits and have not made special arrangements in respect of fluid resource to cover such borrowings.

Main defects.—The main defects of primary societies may be thus summarized. The most prominent is the evil of unpopularity. This is due more to easy-going ways of life and the narrowness of margin between income and expenditure than to recalcitrancy. Next is the frequent apathy of the members in the work of the societies owing to lack of education and absence of higher ideals. The general body leaves affairs at the mercy of the committee; and the committee transfers its powers to the chairman, secretary or some other member. Then there is the objectionable way of making book-adjustments and taking *benami* loans. A grave defect is the inability of the societies to act as real banks, receiving money when presented and granting loans on demand according to actual requirements. In many a society, activity is displayed only twice in the year, once during the cultivation season when loans are advanced and again after harvest time when recoveries are collected. Moreover, as the by-laws place a limitation on the amount of loan that can be advanced to an individual and the financing agencies often cut down the loan requirements, the Society has, in no sense, supplanted the money-lender.

Non-agricultural Societies.—Non-agricultural credit societies have grown up in towns and cities for improving the economic and moral condition of persons engaged in handicrafts and cottage industries, of artisans and small traders, members of particular castes and employees of big firms and Government departments. Non-agricultural societies, except those for handicraftsmen, artisans, and persons of the poorer classes, referred to later, have usually a

limited liability. This is due partly to the absence of any assets in real property among their members, but mainly to the field of their work not being compact as in the case of agricultural societies, where every member may be expected to know every other member. Their constitution is based on the 'Schulze Delitzsche' model and in most cases the management is honorary though sometimes, when the sphere of a society's work is extended, a paid staff is employed. There is in all societies a substantial share capital, payments being made in instalments, and the rest of the working capital is obtained by local deposits from members and others. Loans from co-operative and Joint Stock Banks usually form only a meagre portion of the capital.

Of the total working capital of roughly Rs. 2,17,00,000, Rs. 50,00,000 represent loans and deposits from non-members, Rs. 17,70,000 loans from Provincial or Central Bank, Rs. 6,00,000 deposits from members, Rs. 75,00,000 share capital, Rs. 13,30,000 reserve fund and Rs. 81,000 State aid. At the end of every year one-fourth of the net profits must be carried to the reserve fund and the balance may be distributed as dividend or bonus.

The Financing of Agricultural Societies.—As soon as the initial stage of the movement had passed, a very urgent problem had to be faced. This was to finance the agricultural societies that were growing in all directions. And the problem was solved in different provinces according to the special conditions and the stages of development the movement had attained therein. In Madras a Central Bank, which lent to Co-operative Societies all over the Presidency, was started without Government aid as early as in 1907. This was followed by the starting of banks at district head-quarters. In other Presidencies, district and taluka banks were established making good the deficiency in the local capital of the societies within their districts, and in some places Joint Stock Banks were persuaded to make advances direct

to agricultural societies or through the medium of local Central Banks. A large number of prosperous non-agricultural societies as stated above, could afford to lend to agricultural societies. Government aid was also freely given. With the progress of the movement, however, this aid was discontinued. The Bombay Central Co-operative Bank was founded in 1911, with a share capital of Rs. 7 lakhs and with power to issue debentures at 4 per cent. up to three times the amount of the paid-up share capital, the Government guaranteeing payment of interest on the debentures till their repayment. The Bank was authorised to lend only to registered co-operative societies all over the Presidency with the previous sanction of the Registrar in the case of every individual loan. As an indirect result of the establishment of the Bombay Central Bank, a number of district banks have since been started in the Presidency.

The drawback of the Bombay and the Madras Central Banks is that neither of them was organized as a co-operative Apex Bank in the true sense of the term. In the Bombay Central Bank, co-operative societies are members and may be expected gradually to assist in shaping its general policy. The Madras Central Bank has been recently converted into a Provincial Bank working in harmony with district banks.

The constitution of Central Banks is not uniform, but the existing Banks may be classified under three general heads:— (1) Banks of which the membership is confined to individuals or where societies are admitted as members on exactly the same footing as individuals, (2) Banks of which the membership is confined to societies, and (3) Banks which include societies and individuals as their members and secure to societies separate representation on the Board of Directors. The bulk of the Central Banks are of the mixed type and there are hardly any of them which now adhere to the old capitalist constitution.

industrial development of India through racial antagonism.

Functions of Central Banks:—The functions of Central Banks are to balance the funds of Societies and to supply capital. But their duties are not limited to the provision of banking facilities only, but often include the organisation and supervision of societies. Hence where the Central Banks are not formed on a capitalistic basis, they perform the functions of supervision and control of the Societies affiliated to them, and in some Provinces they also organise new Societies and even take up the entire educational work now done by the Registrar.

CHAPTER IV.

SUGGESTIONS FOR AN INDUSTRIAL AND A LAND BANK.

A review of Banking in India reveals some very grave defects from the stand-point of a country's banks as active instruments in the cause of the economic development of the nation. There is no specialisation in Indian Banking. All the banks profess to tread the same old beaten track of commercial finance, involving short term liquid investments, wherein the degree of profits depends on the rapidity of the turn over. In appearance there is a kind of specialisation—which is in essence only a demarcation of the zones of influence or operation, not a real, intrinsic division of functions. The Imperial Bank does mainly the business of public financing; the exchange Banks that of financing the foreign trade of India; the Indian Banks that of the internal trade of the country, while the private unregistered, unofficial bankers act as the intermediaries between the more orthodox banks and the inland trader as well as carry on miscellaneous money-lending on their own account. But except the last mentioned—whose activities are necessarily unorganised, unco-ordinated, unmotivated by a definite goal in view, and, therefore, unproductive of any appreciable results—none of the banks take up the problem of industrial financing as their set policy. They are not constituted nor intended to do so. But because they cannot and will not deal in industrial finance, the need of the country in this direction is not the less acute. One reason, perhaps, why the existing banking institutions in India will not venture upon these unfamiliar, unpioneered tracks is the predominance of the foreign element in the Indian bank management. It is not, perhaps, that they are of a set purpose and deliberate intention hostile or indifferent to industrial development of India through racial antagonism.

That force in so far as it is vital acts only subconsciously, particularly in business. It is rather because the foreign bank manager in India does not—cannot know the needs of Indian industry, and, therefore, does not like to venture upon the task. It may also be—the facts of the case as we know them show nothing to the contrary—that these men have no knowledge or experience of industrial or agrarian finance in general. And so, rather than expose their ignorance and incompetence, they prefer to earn cheap economies for unmerited distinction in the beaten path.

The presence and predominance of the foreign element in the existing bank-management in India may explain the want of attention to Indian industrial finance. It cannot justify the prevailing apathy of the Indian peoples—or the government towards a most urgent need of the country. The phenomenal industrial development of Germany in the last half-century was accelerated in no small measure by the lavish—almost reckless—aid afforded by the big German commercial banks to the nascent German industry. Coal-mining, steel-making, ship-building, electrical and chemical apparatus and products were among the principal industries built up in Germany between 1870 and 1900 almost from nothing to proportions which made her a most serious and often successful rival to British supremacy of the world in industry and commerce. But that development would have been impossible if the banks had considered their own safety first—on approved orthodox lines. We in India have still immense resources to develop, and thereby solve the problem of employment for our recklessly increasing population. We have had bitter experience of the older banks' unwillingness, inability or incompetence to undertake an unfamiliar task; sheer prudence requires us not to shoulder them with duties they cannot discharge. Industrial finance, particularly in

a country like ours with known and unknown risks of obvious difficulties and hidden hostility, must necessarily demand great patience and relative disinterestedness, which is ordinarily impossible to find among private capitalists. Hence there is no need for a further apology for the subjoined scheme for an Industrial Bank for India,—and another for a Land Bank—which, it is hoped, will meet with the consideration they merit. The author is not presumptuous enough to regard them as the last word on the subject, which must accordingly be taken in tact as a sort of modernised decalogue. He only intends them as definite, concrete suggestions for constructive economic statesmanship, which he believes is very badly needed for the moment in India.

I. NAME OF THE BANK.

1 This Bank shall be called the Indian Peoples National Industrial Bank, Limited.

There is no particular magic in the choice of a name, but it is as well to indicate the national and popular character of the institution

II. OBJECTS OF THE BANK.

2 This Bank is formed with a view to promote, inter alia, the industries in India particularly of a manufacturing nature and operated by hand or machinery motived by water, steam, gas, or electricity. The objects of the Bank, therefore, shall be to finance such industries either from their very commencement, or in the course of their operation, or extension, or consolidation or reconstruction, by means of simple loans, or purchase of their debentures, shares, Bills or other documents, or by guarantee, for commission, to their customers, and by every other means that the Directors of the Bank may deem necessary and suitable to give effect to this object.

3 In carrying out the principal object of this institution, and for the better safety thereof, this Bank shall have power to take part in the management, direction and control of the enterprises in which it is financially interested; and may, to this end, depute or appoint any of its officers or directors to act as director, manager, adviser, trustee, receiver or in any other capacity that the exigency of the situation may render necessary.

These objects need no comment. The powers annexed are a special outcome of the objects prescribed, and will be more fully explained later.

4 For the clearer interpretation of the objects of this Bank, an Industry, suitable for assistance by this Bank, may be defined as any enterprise dealing in manufacture, construction, repair or renewal of commodities, or extraction, refinement and finishing of minerals as well as their bye-products, or transport, conveyance, storage and delivery of commodities, whether the enterprise is conducted by hand-power or machinery worked by water, air, steam, gas or electricity and employing any number of human operatives for the profit of an employer, or for the joint and mutual benefit of the operatives themselves, or for the benefit of the community at large.

This definition includes handicrafts as well as more up-to-date large-scale industry. It would, however, be better from the stand-point of profit-making for the Bank, if the task of affording financial aid to a single craftsman working independently in his own home is left to the co-operative credit societies, specially formed for the purpose; as it would be next to impossible for such a bank to supervise effectively the operations and financial standing of such individuals. It is inadvisable to restrict the benefit of this institution only to enterprises organised on a Joint Stock principle with limited liability. The principle of

limited liability is not necessarily a guarantee of the security and solvency of the enterprise. There may be firms of single individuals or partnerships which may be doing excellent business, and there would be no harm in allowing the Bank to assist such concerns, even though they may not avail themselves of the advantages of the principle of limited liability. But the Directors of the Bank would be well-advised to make a rule, rather than leave it to the discretion of the managers, that financial aid by this Bank should not as a rule be extended to small, single craftsmen, though there is no reason why the Bank should not assist, if it can, the co-operative societies who are mainly or exclusively interested in financing such single workers.

The industries included in the definition comprise all manufactures-mining ventures, transport enterprise with all their incidental or connected operations, from the commencement to the final stage. The only important industry in the country that is left out is agriculture; but as the problem of agrarian credit has its own peculiarities it is better to create a special Bank for agrarian credit exclusively. We have provided for such a bank in a later section of this chapter. It may be remarked here, however, that instances may occur in which it may be doubtful to decide clearly if an industry is agricultural or such as would come within the purview of this Bank. Tea or oils made from seeds, are instances in Point. The difficulty would be the greater in proportion as the organisation of industry comes to be based on the American principle of concentrating all the processes and products of a principal industry in the same enterprise. The rule of distinction, if one is absolutely necessary, may be thus formulated. Whenever an enterprise is principally concerned with the cultivation of land and marketing or making up its produce into immediately consumable commodities, that enterprise should be regarded primarily as agricultural; and financial assistance to it should be afforded,

if required, by the Land Bank. In all other instances the assistance may be afforded through this Bank. In practice the difficulty of a distinction will be very rare as it may reasonably be expected the two institutions would work harmoniously together, and would be co-ordinated in their operations by their final connection in the Imperial Bank of India as provided for below.

II. CAPITAL FOR THE BANK.

5 The capital of the Bank shall be 25 crores, twenty-five crores of rupees, consisting of shares of Rs. 10 each of uniform rights, and payable in instalments of 20 per cent (twenty per cent.) of the nominal value of each share as follows:

1st	instalment	application	Rs.	2	per	share
2nd	"	allotment	"	2	"	"
3rs	"	1st call	"	2	"	"
4th	"	2nd "	"	2	"	"
5th	"	3rd	"	2	"	"

Provided that after allotment, no more instalment shall be called up except at an interval of not less than six months; and provided further that the last two instalments need not be called up except and unless three-fourths of the available working capital has already been invested in approved securities permitted under this scheme for a period of a year or more.

The amount of the capital for this Bank may seem to have been fixed at an arbitrary figure. It has certainly no obvious relationship to the financial needs of the new industries in India. In another work of the present writer, *Sixty years of Indian Finance*, (P. 270-71) the total capital needs of India have been estimated at Rs. 1,000 crores for a comprehensive development of the entire country. Of these agriculture accounts for Rs. 400 crores; and the old establish-

ed industries like cotton and jute manufacture 50 crores. Banks and Insurance enterprise may demand another 50 crores, while road-making—a function of Government—may cost 50 crores more. This leaves the capital needs of new industry at 450 crores, of which ship-building and transport facilities like canals are assigned 250 crores. So the new industry proper would need 200 crores—or including ship building 400 crores. The proposed Industrial Bank will not be called upon to provide the whole of this figure. It would only help to induce this amount out of the peoples' pockets by affording its guarantee or the encouragement of its example. For that purpose its own capital of Rs. 25 crores, of which 15 crores may have been called up; deposits whose magnitude cannot be stated definitely, but may be reasonably expected not to fall below 25 crores if all the special provisions detailed below are given effect to; and debentures issued by the Bank itself upto 50 crores would more than suffice for the purpose in view. One advantage of such an institution with provincial ramification would be that it will help to economise capital or prevent its waste and dissipation owing to the multiplication of rivals competing in the same industry, which would be unavoidable if there is no co-ordinating financial institution.

The amount of the share is fixed at Rs. 10, in order to attract the real savings of the people for this institution. The smaller the value of a share the greater the chance of its popularity. We would have reduced it even to one rupee, but for the disproportionately heavy charge which would then result in the matter of stamp-duties on share-certificates and their transfers. It would prevent the share becoming a popular security. Even for a ten rupee share the one anna stamp duty on certificates and transfers may prove too heavy, not to mention the postal charges for the transmission of interest warrants. Perhaps it would not be too much to ask the Government for a concession in this regard, by a complete

exemption from stamp duties, or a commutation of payments in lieu of stamp duties. The concession would not be misplaced in view of the services intended to be discharged by this institution, as also owing to the fact that the provisions in connection with the distribution of profits make it really a non-profit making concern.

6 The share capital of the Bank shall pay interest at the rate of not less than 5 per cent. and the same shall be guaranteed by the Government of India. In the event of the profits of the Bank being in any year inadequate for the purpose this guaranteed interest shall be paid out of the revenues of India.

This is the principal concession expected from the Government. The Industrial Bank cannot right-fully expect financial aid from the Government out of its various reserves; since the latter are ear-marked for the maintenance of the currency system, and cannot be made over to an industrial corporation without endangering the stability of the currency system. It may, of course, be possible for the Imperial Bank to hold a part of the fiduciary reserve against the Paper currency in the form of first class industrial securities; particularly those bearing the imprimatur of this Bank. If out of a total fiduciary reserve of 75 crores, let us say, one-third is held in Industrial securities, that might enable the Imperial Bank to assist the Industrial Bank to the extent of 25 crores capital. But the law would have to be radically altered in that case—not only the existing law which excludes the Imperial Bank from the management of our currency system; but also the project outlined in Part I of this work.

Pending the grant of more substantial concessions by government, or in lieu thereof this guarantee would serve as well. We have not deemed it fit to have the whole or part of this capital subscribed by Government—they are not definitely excluded from subscribing as the clause stands—not only because the resources of the Government are already

known to be so severely strained; but also because of the fact that the present government labours under a suspicion not without good foundation of being influenced in its trade and industrial policy by anti-national considerations. It would consequently add to the bitterness of feeling already intense, were we to insist upon this additional function being taken over by government. Under the existing condition in India, it is best to restrict Government share in these matters to general supervision without allowing it to degenerate either into undue interference or absolute indifference. We have provided for such supervision elsewhere. The present clause demanding guarantee of interest is necessary to impart confidence to the investor, but is not likely to be a burden to the government, if we are right in the belief there is a vast field for legitimate industrial banking in India.

In contradistinction to government aid in initial financing of the Bank, one might be tempted to seek popular aid through such popular organisations as the Indian National Congress for example. It is a great pity, however, that these bodies, which possess the confidence of the people, do not yet take up any constructive scheme of statesmanship, in spite of all the professions and advertisements *à galore* to the contrary. There is, indeed, always the danger of such popular political bodies wanting as much in competence as in efficiency to undertake and carry out such projects. Their political aims will vitiate such constructive ventures by the unavoidable evil of selecting the tools to work such enterprise not on reasons of ability but rather on grounds of public influence gained by popular oratory. In spite of this obvious danger, however, the mere association with such bodies for purposes of capital subscription should not be condemned out of hand, provided precautions are taken from the beginning to prevent further entanglement into the political vortex caused by these bodies. It would be a genuine service to the country which their professions of patriotism may well be called upon to render without expectation of any further gain to

them individually. It is a point, however, best left to discussion and settlement when the scheme is actually put into effect.

The total burden of the guarantee—should it ever have to be made good by government—would not exceed, at 5 per cent. on 15 crores Rs. 75 lakhs or on 25 crores Rs. 125 lakhs—nothing in comparison to the resources of the government and still less in proportion to the merits of the institution. The analogy of the railways is too patent, and has cost us already too much, for a Government really intending to rule for the benefit of the ruled, to refuse to afford such a slight concession.

7 All the shares shall be of equal value for the purposes of distribution of profit, and no priority shall be given to any of them for this purpose in the event of any further future issue of additional capital divided into shares.

8 For the purpose of voting at any ordinary or Extraordinary general or special meeting of the Bank, each share holder, present at the meeting in person or by proxy, shall have one vote only in respect of all the shares he may be holding at the moment.

These provisions are inserted to make investment in the shares of the Bank a really safe security, with a fixed yield guaranteed by Government. The provision against discrimination as between the different classes of shares had to be introduced, so that no special advantage may be given to earlier or later investors, to the prejudice of the other. It would, however, be open to the authorities of the Bank to raise more working capital by means of debentures to which special terms may be given. The clause limiting voting strength is similarly necessitated by the desire to keep the institution an entirely popular one, without possibility of manipulation for personal ends by powerful groups of capitalists. The concession of voting by proxy may nullify this

intention by means of the maximum possible subdivision of their holdings by interested industrialists or capitalists; and so it is to be hoped the directorate would make rules to prevent abuse of the right of voting by proxy. The other alternative to gain the same object would have been to limit the holding by any person, for himself or in trust for another. But, at least in the initial stage of this new venture, such a provision might unduly operate as a deterrent to subscription in the shares. We have accordingly ruled it out, but it may quite possibly be that to keep the Bank true to its original object of a popular, national institution, working not primarily for profit, rules may later on have to be made to prevent concentration of holdings of its shares in a very few hands.

IV. ORGANISATION OF THE BANK.

9 The Bank shall be organised as one Central Bank for industrial finance for the whole of India, with its head office and chief seat of direction in Bombay or any other convenient centre to be determined by the directors of the Bank.

10 The Bank, nevertheless, shall open branches in all the principal provinces of British India, and such of the leading native states as offer possibilities for industrial finance, provided that the system of branches shall not be extended so as to be more than one hundred in all.

These provisions outline the main idea in the organisation of this Bank. It must be a single central institution for the whole of India—not because we ignore the differences in the industrial conditions and possibilities of different provinces. The recognition of those differences has dictated the clause about provincial and other branches in this section, and would be further illustrated in a later section dealing with the management of the Bank, wherein adequate provision will be made to give their due attention to the variations in

provincial conditions. The intention, however, of organising the Bank as a single homogenous central institution is to secure the maximum of industrial development with the minimum of capital, most efficiently laid out. We believe in the economy of concentrated, large scale production, and to achieve that a central financing institution is the surest means.

The opening of branches, in the principal provinces is necessary, as already remarked, to reconcile the ideal of concentrated management, with that of proper attention to the local needs of each province. The same argument applies to the case of native states who would be well advised to make common cause with the rest of India, and join in making this Bank a success, instead of starting their own independent banks of this nature. But the system of branches must be limited in the case of an industrial Bank. It is not a trader's bank, and, therefore, need not bring its facilities to the door of its clients by multiplying branches. Branches may, indeed, help to attract real savings as deposits in the Bank. But that object would be amply fulfilled if branches are restricted to the headquarters of a province, and the principal centres of industry therein. The savings of the rural masses, such as they may be, must be left to the co-operative credit institutions and the Land Bank. Hence the limit of a hundred branches in all.

11 The Imperial Bank of India shall be requested to open an Industrial Department, to co-ordinate industrial and commercial finance in the country, and to arrange for an easy transfer of liquid resources from its reserves or other wise in order to render financial assistance to the Industrial Bank when needed.

This provision is necessary to ensure a complete coordination, and the most early and economical distribution of our national financial resources. The Imperial Bank, being a banking institution on the orthodox lines of commercial banking, may

not itself find it advisable to engage directly in financing industries. But like the *Reisch Bank* of Germany, it can, if it chooses, render substantial aid to industry. The *Reisch Bank* did what it could under the discretion of its *Directorium*. In the case above we have planned for a special department of the Imperial Bank of India which will specialise in assisting and overlooking the Industrial Bank. With an Imperial Bank particularly anxious to economise the use of metallic money, and to that end adopting devices like the *giro* system of transfers; with an Imperial Bank possessing the power to manipulate the paper currency system, there ought always to be funds available for aiding the Industrial Bank. . And if the law is modified so as to permit the Imperial Bank to receive and hold debentures of or other securities endorsed by the Industrial Bank itself as part of the fiduciary reserve against the notes in circulation,—with, if necessary, a maximum proportion fixed beforehand upto which such securities can be received,—the whole problem of industrial finance ought to be solved.

Connection with the Imperial Bank is further to be desired for the sake of facility of supervision over the working of the Bank. Provision has been made in a subsequent section for public inspection and supervision of the Bank by governmental agency. But that agency would not necessarily possess the requisite insight and knowledge of banking business. It can at best guarantee that the affairs of the Bank are what their books show them to be. For advice, guidance or suggestion, this kind of inspection would be no good. The Imperial Bank, itself as we have planned it, a public institution, and interested in the financial solvency of the Industrial Bank, will furnish the requisite experience of banking mystery that will best qualify it to carry out the task of supervision, not as an apathetic outsider but as an interested and sympathetic co-operator. Advice, and suggestion coming from the industrial department

of the Imperial Bank would not appear in the light of interference or coercion, that they might quite probably do if emanating from inexperienced officials of the government.

V. BUSINESS OF THE BANK.

12 The business of the Bank shall normally consist of:

- (a) receiving deposits for a fixed term from the general public in consideration of interest the rate whereof may be fixed from time to time by the Directors of the Bank.
- (b) receiving Deposits on current account and with or without any fixed term from individuals, firms, companies with limited liability and other corporations in whose business the Bank is interested financially
- (c) making loans to any of its customers described in the foregoing sub-clause on the Security of their business in general or for any part or whole of the property and assets engaged in the said business, under rules to be made from time to time by the Directors of the Bank as to the valuation of those assets, the proportion of advance to be made thereon, the kind or form in which the security is to be accepted and the period for which the loan is to run;
- (d) allowing overdrafts to the customers of the Bank as described in (b) on the general security of the business as a whole together with the personal credit of one or more of the proprietors or directors of the business as the case may be; provided that no such overdraft shall exceed a period of one year, in the first instance but may be renewed at the discretion of the directors of the Bank under rules made by them in that behalf

- (e) receiving loans from the Imperial Bank and any other or individuals for a fixed term or on current account under rules made in that behalf by the Directors of the Bank.

These forms of business are in accordance with the accepted maxims of industrial finance. We must necessarily leave a wide margin of discretion for making rules to govern each specific classes of business to the Directors, as a general scheme like this cannot possibly provide for all likely and unlikely contingencies. The deposits, however, that the Industrial Bank invites and accepts should be for a fixed term, since the bulk of its resources are likely to be locked up in securities that cannot be realised all at once without heavy loss. It will not, therefore, be safe for such an institution to multiply its demand liabilities unduly. The only deposits payable on demand and for current account that it may safely receive would be from parties to whom the Bank has already rendered financial aid so great as to be vitally interested in their success; and who would not accordingly be likely to make a run on the Bank to withdraw their deposits. This last contingency is the more unlikely, since, as provided for below, the Bank would in all such cases be represented on the management of such concerns. The same principle governs the business of overdrafts.

It is doubtful if the Bank would receive substantial aid to its finances by deposits. Its customers' current account deposits would probably be set off by their overdrafts. The public deposits, even with a relatively higher rate of interest, cannot be expected in any very considerable quantities if conditioned by a fixed term of two or three years at least. We should be satisfied if the deposits all round aggregate 10 crores for the whole Bank.

13 The Bank may draw, accept, endorse, hold buy, or sell, or discount any bill of exchange, hundie, cheque, promissory note and any other negotiable instrument in the general course of its business on its own account or or on that of its customers.

This provision needs no comment.

14 The Bank may, issue on its own accounts debentures or bonds from time to time, subject to the maximum limit fixed by the total authorised capital of the Bank and under rules made in that behalf by the Directors of the Bank as to the kind of security offered against the bonds or debentures, their period of currency and mode of withdrawal, the provision for their redemption and the rate of interest.

The Bank may quite possibly be able to raise a very substantial amount of working capital, if it only helps to popularise this kind of investment. Debentures with interest at $7\frac{1}{2}$ per cent. or even 10 per cent. issued in denominations of 10 rupees, 100 rupees or 1,000 rupees each, with interest warrant payable to bearer attached, will almost succeed in setting up a new currency in the country; and go a long way to wean the people from their supposed or real hoarding habits. The bearer bond is yet an untried instrument in India. If issued in sufficiently low denominations it is bound to be acceptable to the mass of the people. The analogy of the Post Office War loan certificates makes us very optimistic about the possibilities of this instrument. If the Bank issues these debentures for a currency of twenty years; provides an adequate sinking fund for their redemption by some kind of lottery every year, the popularity of the debentures may be so great as to make them excessively tempting to the Directors of the Bank. If the funds raised by the Debentures have been well employed, the Directors would find it the most paying source of their business, which they need

not fear would cause any undue strain upon the Bank as it would be always possible to pay off expiring debentures by fresh issues, if only they have become popular and current. It is in view of this not unlikely temptation that we have fixed the maximum amount of debentures which can at any time be in circulation being limited by the total capital of the Bank. But, of course, this limit may have to be raised if the real industrial needs of the country demands its extension.

15 The Bank may, under rules made in that behalf by the Directors, guarantee or accept or endorse, the bonds or debentures, of any individual firm or corporation carrying on an industrial enterprise in which the Bank is financially interested, and in whose management or trustees for debenture-holders the Bank is properly represented.

This would be an additional means of popularising industrial investment with the masses of India. Though not primarily issued by the Bank itself, these debentures of industrial concerns will, when accepted or endorsed or guaranteed by the Bank, be as good a liability of the Bank as any other. The only consolation is that the Bank, though responsible to the bond-holder, itself, can make good its loss if any ultimately from the assets of the issuing concern. For a real popularisation of industrial investment nothing could be better devised than this form. Industrial enterprise in India is still old-fashioned enough to rely on share capital for all its capital need; and is consequently driven very frequently to overcapitalise and therefore weaken its chances of success. Share capital should be limited to the actual amount of fixed capital in a concern. An enterprise managed most economically would endeavour to find all the rest of its working capital from banking facilities. Here is a means—bonds guaranteed by the Bank with interest payable to bearer—by which any good concern can raise for a

definite interest all its working capital, reserving the balance of profit on the whole investment to the shareholders or proprietors. If the total capital needs of an enterprise is Rs. 10 lakhs which could pay on an average 10 per cent interest; and if 5 lakhs of this amount is needed for plant, building and fixtures; then the share capital should be confined only to this 5 lakhs. If the other 3 lakhs are raised by debentures of from five to twenty years currency at $7\frac{1}{2}$ per cent, and 2 lakhs by Bank overdraft at 6 per cent., the expected profit of Rs. 1,00,000, would be divided as follows:—

To Interest on debentures	Rs.	22,500
” ” ” overdraft	”	12,000
” Dividend ” Shares	”	65,500

or 13 per cent. If the provision for reserve and redemption takes away Rs. 2,500 at $\frac{1}{2}$ per cent., even then the shareholder can get $12\frac{1}{2}$ per cent.; while if the whole capital had been found by shares, the shareholders could only have got 10 per cent. The better security of the debenture and the greater fluidity of the bearer bond has been much better understood in the United States; and since the beginning of this year also in England. The public is accordingly as much benefited as the proprietors of such a concern; and we doubt not but that the Bank, too, giving such a guarantee for a consideration or commission would be benefited in proportion.

- 16 The Bank may, under rules made in that behalf by the Directors, engage in floating or promoting a new industrial enterprise, by placing its share capital on the market and underwriting any part or whole of such an issue.

Hitherto the business prescribed for the Bank followed the accepted idea of legitimate industrial banking. On this one, opinion is not quite unanimous. The experience of the Tata

Industrial Bank Ltd. has already been discussed. The reasons why we cannot accept the Tata experience to negative this branch of industrial finance have also been outlined there. The German precedent is too conclusive in this regard to be ignored altogether and we see no reason to exclude the Bank from such a most lucrative source of business. It need hardly be added in so many words that the floating of new ventures and underwriting of their shares &c. must, if it is at all to be done successfully, be done without any partiality, and with the most exhaustive inquiries and expert assurances to the Bank on the industry's possibilities. If these conditions are satisfied no danger need be apprehended in such financing.

17 The Bank may, under the rules made in that behalf by the directors, engage as sleeping or financing partner with any individual firm, corporation or syndicate for working or exploiting and manufacturing mineral or other concession, granted by a local or central government, and operated in the nature of a monopoly, provided that in such an association or partnership the Bank shall publicly and explicitly dissociate itself as a corporation from any share in the actual management of such a partnership business, or any liability over and above the definite, limited financial liability taken under the deed or agreement of association.

This clause also may sound unusual, but is supported, once again, by excellent precedents in Germany. The mineral wealth of such a country like ours ought not to be made over in perpetual private property to individual capitalists who will only operate a mine with an eye solely to profits. And, when in addition, the mineral is to be operated as a monopoly, the necessity for some kind of public feeling being associated with the business becomes doubly great. It may be that without private capital being invested in the first instance there would be no possibility for

adequate development of mineral wealth. It may be that the very magnitude of preliminary expenditure in investigation &c. may be too great to allow the state or any public body like a municipality or a District Board understanding the venture. For such cases the association of the Bank would do all that may be required, and may even make a regular policy of setting aside a portion of its reserve funds for such investigation. But as the Bank is meant as an aid for the national industry in general it would not be prudent to suffer it to get entangled too much into the actual working of a single concern. Hence such assistance of the Bank would best be rendered in the form of sleeping partnership with no other responsibility or liability upon the Bank as such. The law relating to partnerships or Companies in India may have to be modified to give effect to this special position desired for the safety of the Industrial Bank. The exemption of the Bank as such from liability for the acts of the managers of such a business would not and should not extend to the Bank's deputy or representative, if any, on the board of management of such concerns. As provided in the next following section, the Bank will almost certainly in all such cases have its nominees or representatives on the Board of management of the concerns in which it is vitally interested. But those deputies must bear a personal responsibility for any acts of the management in the details of managing the business. They may possibly want to stipulate for an indemnity from the Bank for personal liability arising out of acts done in good faith in the regular discharge of the duties annexed to their deputation. But even this mode of circumventing the main intention of this proviso should, if at all, be very sparingly allowed.

18 The Bank shall arrange to be represented adequately on the highest directorial or managing agency of every concern in which it is financially interested either by making substantial overdraft, or by guaranteeing

indorsing or accepting any bonds, debentures or any other security of such a concern, or by any other form of closer association whether membership of a syndicate or sleeping and financial partnership. The representatives of the Bank in all such cases shall act so as to safeguard the legitimate interests of the Banks and shall in all such matters conform to, and make the rest their colleagues in such a directorate conform to the rules of the Bank in that behalf; but they shall not make any undue interference in the detailed management of the concern, nor render themselves liable for any acts of the management or directorate except in so far as their special duties in safeguarding the financial interests of the Bank are concerned. In the event of their assuming or incurring any such liability outside the reasonable scope of their special duties, they shall have no right or claim to be indemnified by the Bank.

This provision follows from all that has been said before, and has been worded sufficiently fully to make all the points involved adequately clear.

VI. DIRECTION AND MANAGEMENT OF THE BANK.

19 The supreme control, direction and management of this Bank shall be vested in a Board of 25 Directors made up as follows:—

(a) Eight to be elected, annually, one each by the shareholders of the Bank resident in each of the principal provinces of British India, provided that no province with a total holding of shares which does not exceed one-twentieth of the total share-capital of the Bank shall have a right to elect such a director;

(b) Eight to be elected in the annual general meeting of all the shareholders of the Bank acting together.

- (c) Two to be elected annually by all the shareholders in all the native of States where the Bank has opened a branch;
- (d) Two to be elected by the Debenture holders of the Bank if any;
- (e) Three to be nominated the Board of Directors of the Imperial Bank of India, one of whom shall be a managing governor of the Imperial Bank, one from among the other directors of that Bank and one representing the Land Department of that institution.
- (f) The remaining two shall be appointed by the Government of India from among the seniormost officers of its Finance Department.

This scheme of selecting directors for the Bank tries to give due representation to all the interests involved. The provinces are represented specifically so that due attention may be paid to local needs. And yet an equal number is reserved for the general body of the shareholders in order to emphasise the central, unitary character of this institution. The Debenture holders and native states may claim some representation on the same ground. Out of the total of 25 directors 20 are to be recruited by direct election. The remaining five are to be nominated, three by the Imperial Bank of India, and two by the Government of India as each of these is sufficiently interested to be represented. The principle of recruitment in their case is nomination as election would not be feasible.

20 The Directors shall hold office normally for a year, but shall be re-eligible to serve again. In the event of a director ceasing to hold office by any of the contingencies mentioned in the next following section, the vacancy so

caused shall be filled precisely in the same manner as had been applied in the recruitment of the previous Director.

21 The office of a Director shall be vacated by the death of a Director or voluntary retirement or insolvency, or the commission of any criminal offence involving a sentence of imprisonment or transportation, or by accepting any paid post under the Bank.

22 The Directors shall be remunerated for each attendance at a properly convened meeting of the Board by a fee not exceeding Rs. 250 in addition to the travelling and other out of pocket expenses incurred on that behalf.

23 No business transacted at any meeting of the Directors shall be valid and binding unless 10 at least of the members of the Board were present.

These provisions need no comment, beyond the remark that the exclusion from the Directorate of men in any subordinate paid position in the Bank has been provided for in the interests of discipline.

24 The Directors shall, subject to the main principle of this scheme and in conformity with objects of the scheme as defined above, conduct, control, direct and supervise the general business of the Bank; and carry out its main policy as laid down by this scheme and elaborated in the annual general meeting of the shareholders of the Bank; and make, alter and amend rules from time to time for giving effect to such provisions of this scheme as require special rules to govern them.

This provision is self-evident

27 The Directors shall appoint all the officers, advisers and servants of the Bank and make rules for their pay, pension and allowance, and also for their behaviour and relations with the Bank; provided that the supreme

general manager of the Bank, the chief accountant and the Secretary of the Bank shall be appointed by the Directors, subject to the approval of the shareholders in the annual general meeting assembled and the said three officers shall not be removed from their post except by a vote of the shareholders in an extraordinary general meeting called for the purpose.

This provision lays down one very important limit to the supreme power of the Directors. The officers above-named are those specially entrusted with the actual day to day management of the Bank. They must be allowed a certain assured position to enable them to place the Bank's interests as considered by them independently and fearlessly before the Directors, and also to ensure a degree of continuity in policy.

28 The daily business at the Head Office of the Bank shall be conducted, under the supervision of the Directors and in conformity with the provisions of this scheme and the rules made by the Directors thereunder, by a General Manager appointed by the Directors as provided for in the next preceding section. He shall be assisted by suitable and adequate staff of accountants, clerks, inspectors as required by the work of the Bank.

29 The daily affairs of each provincial Branch of the Bank shall be conducted by a local manager assisted by an advisory council of three consisting of the head accountant and the chief cashier for the branch and the locally elected director.

30 The powers of the General Manager and the Branch Managers shall comprise all forms of the activities provided for in this scheme and regulated by special rules passed in that behalf by the Directors.

31 Once at least in each calendar year a general meeting of the Shareholders of the Bank shall be held to

consider and adopt the balance sheet of the Bank, to review the general character of the business during the past year, and to determine any question of policy that may have been specially raised for consideration and disposal at the general meeting.

32 The Provisions of the Indian Companies Act 1913 shall apply as to the calling of a special of Extraordinary General Meeting of the shareholders, as well as to the nature and conduct of business at such extraordinary or special meetings.

33 Provision shall be made at each annual general meeting for the proper independent audit of the accounts of the Bank; and such auditors shall be required to submit a detailed report on the operations of the Bank together with such suggestions as they may deem necessary for the proper conduct of the Bank.

34 The provisions of the Imperial Bank Act shall apply as regards the government inspection of the affairs and proceedings of this Bank.

VII. PROFITS OF THE BANK.

35 The Profits of the Bank, after all the expenses of the working of the Bank have been met, and due provision made for the depreciation of all the wasting assets held by the Bank shall be distributed as follows:—

- (a) payment of the guaranteed minimum of interest on each share.
- (b) out of the balance, if any, assignment of 25 per cent. to the Reserve Fund every year.
- (c) and the remainder to be shared equally between the shareholders and the Government of India,

As we intend this institution to be worked as a concern not primarily for profit-making, it would be desirable to lay down a maximum percentage that can under any circumstances be distributed as Profits among the proprietors. As, however, such an outright indication of socialistic designs might frighten away capitalists, we have elaborated above the next best alternative of a guaranteed minimum of interest being made the first charge on the profits; next a handsome provision for a general Reserve which will of course be over and above the special Reserves or sinking funds created against each issue of debentures or other such liability of the Bank; and finally an equal division of the surplus between the government and the shareholders. The former may justly look to sharing in the profits of this institution since they have also given their guarantee for a minimum return on the shares, even if we leave out of account the more radical dictates of socialisation.

A LAND BANK FOR INDIA.

It is unnecessary, after giving a detailed scheme for the establishment of an Industrial Bank in India, to give more than a general outline of the idea underlying the creation of a special Land Bank, particularly told off to improve agriculture in India by means of additional capital investment. The productivity of agriculture in India is, in my opinion, capable of considerable improvement if only sufficient capital were invested in it. The existing agricultural co-operative credit societies are meant to organise personal credit; and, therefore, grant loans, the objects of which they have neither the desire nor power to investigate into. Loans may be, and are, granted by them to pay off old debts; to defray the expenses incidental to ceremonial occasions; and, occasionally, to buy cattle or seeds, to sink wells, or to carry out any similar operation of specific agricultural improvement. But the primary intention of these societies being to save the members from the clutches of the usurers they are unable to pursue a loan into the details of its employment. Their activities, accordingly, do not help to avoid the problem of agricultural improvement. A special Land Bank, definitely started to provide the necessary capital for introducing the latest improvements in agriculture with a view to increasing its productivity, is thus absolutely necessary. It may be created by the amalgamation of all the co-operative societies now engaged in improving agrarian credit; or, better still, as an independent, concurrent, institution specially created for the purpose.

The *Landschaften* in Germany, which we would adopt as the model for the kind of Land Bank we have in view, were based on the idea of substituting the organised mortgage for

individual pledging of land in which the debtor and creditor dealt directly. The Land Bank serves as an intermediary between the estate needing credit and the capital seeking investment. Its advantage is to institute a land mortgage bond payable to bearer, and secured by the credit and the assets of the Bank. Being in touch with the general money market of the country, the Bank is able to obtain money on much cheaper terms than the individual mortgagor would have been able to do; and the security it puts forward, a draft payable to bearer—would practically attract all the real savings in agrarian districts, as well as others if its rate of interest is appreciably better. The German Landshaftern are public institutions, with their Boards of Directors having the character of public authorities, their higher officials being chosen by credit unions and their appointment ratified by the head of the state. They are invested by law with various and considerable privileges, the most important of which are: (a) the right to levy execution on mortgaged real estate *without* legal process; (b) the mortgagee's right of foreclosure is in their case extended, under the statutes of the institution and with the consent of the state, to personal property; (c) the coercive management by the Bank of mortgaged estates; (d) its demand for sale of the mortgaged estate is to serve as a substitute for the title of the property foreclosed; (e) in case of waste or loss the seizure can be executed by the landschaft, in stead of by the court, upon the moveable property of the debtor; (f) the permission for investment of Trust Funds in the securities of these Land Banks.

These banks grant loans in proportion to the needs of the estate to any member, of the Landschaft, which is formed by an association of the estate owners in a given area. The Bank issues mortgage bonds bearing interest and payable to bearer. These bonds are obligations of the Landschaft which are to be con-

sidered as funded on a mortgage claim of the same amount. The legal connection between the mortgage bond and the hypothecated estate which supports them is evidenced by the fact that the mortgage bond is drawn up by a special commission of control, which must be convinced, by looking through the mortgage documents in question, of the existence of an equivalent amount of mortgageable property. As there is provision for the stamps on each mortgage the Land Transfers Records office can take notice of the transfers, and would not cancel a mortgage unless it is convinced that an equivalent amount of bonds in circulation have been withdrawn.

This brief description, summarised from the "Miscellaneous Articles on German Banking" published by the American National Monetary Commission, of the most successful instance of agrarian credit organisation for productive purposes, may be taken as a basis for a similar institution in India. Leaving the Co-operative credit Societies to do the kind of business they are now handling, we may yet have a Central Land Bank—or a department of the Imperial Bank functioning as the supervisor and co-ordinator of all the local institutions of this kind. They would best be formed out of associations of landholders in each district. It would be easier for the larger landlords of Bengal or U. P. than for the small peasant-proprietors of Bombay or Punjab, to make up such collective association for supplying productive capital; but it is not impossible even for the latter to extend or develop their co-operative model into a productive financing institution by association of all units in a given village for example. This association—made into a special Bank by a special law—may acquire a general lien on all the estates of the associates, and create bonds on the security of these estates jointly and severally for selling in the open market. Before, however, any bond is put into actual circulation, it would be numbered and further secured

by the guarantee—or mortgage against it of a specific estate out of the association. If the bonds are made payable to bearer, and of round, convenient amounts suitable for large and small investors, it may be necessary to sub-divide a large estate into several blocks of equal value; the bonds issued against all of these blocks would of course have the joint security of the whole estate; but a certain kind of priority may be established as between the various bonds on the analogy of priority allowed as between several mortgages of the same property under the existing law. Thus if an association of land-owners in the Gorakhpur district of the United Provinces issues 10 bonds against estate A, the bonds may be numbered, Gorakhpur assoc. A 1, 2, 3, &c. Each bond is of course in the last instance secured by the collective security of all the estates under the association. But Bonds A 1 to A 10 are to be satisfied in serial order in the first instance out of the estate A. In this connection the problem of valuation, the investigation of other charges upon the estate &c. will figure very seriously; and the directorate of the association will have to be empowered to make statutes to govern valuation of estates as well as the amounts to be advanced against each, and the objects of the advance. This will afford the most acid test for the practical success of the Directors.

The bonds will be issued in the first instance to the borrower, who may sell them all or as many as he likes, in the open market. Being payable to bearer after a definite period, and carrying good interest in the meanwhile, this form of security ought to prove very attractive in the shortest space of time, if our assumption about the possibilities of increasing agricultural productivity in India is correct. The borrower would, of course, be bound to establish with the Bank a sort of amortisation fund, under which every year he would have to pay that rate of inter-

est which is agreed to be paid on the bond, plus a further percentage calculated to pay off also the capital charge in the stipulated number of years. The association may hold its own bonds, and in that case the interest paid would constitute its profit. It will usually, however, prefer to dispose of these bonds to the general investing public, or pledge them to the Imperial Bank in exchange for cash advances, which the latter can make the more easily if it is permitted to hold a portion of these as reserve against the currency notes. The cash obtained—whether by direct sale in open market by the borrower himself, or through the association—would be, must be, invested in agricultural development only. The association would have to make rules to guarantee that its loans are put to the uses specifically approved of. In the event of a default it must have powers of compulsory substitution of its own direct management in place of the defaulting owner, as well as the other privileges enjoyed by the German *Landschaften* about execution, foreclosure &c. described above.

In giving effect to these last privileges, considerable modification would have to be made in the Land Revenue Collection procedure of the Governments in India. Even if the Land Revenue demand enjoys a priority of claims, the Land Bank's claims—being a publicly registered mortgage,—must be given a priority next in order. And if the estate owners in a district where the *Zamindari* system prevails—or the villages in a *Ryotwari* province—should combine to form such association, the entire land revenue policy must be modified to permit of such association, and joint exploitation of the Land. If necessary the Bank may even guarantee the Land Revenue demand; but the demand and its collection must not be allowed—as it has done so far—to interfere with the agricultural improvement of the country.

The law of equal division of ancestral property would also need to be accordingly modified, though this last may best be achieved by the statutes of the association pledging the borrower to prevent his property being broken up until the debt is cleared.

To weld all the different district associations into one Central Land Bank, a special body may be formed with its own subscribed capital and its own bonds issued on the collective land security of the country. If, however, the Imperial Bank of India is authorised to extend its activities so as to envelope these associations and assist them, nothing could be more desirable. In that event it would perhaps be much better if these institutions remain decentralised units.

If the Banking needs of India are met as outlined above, there is no reason why the development of this country simultaneously in all directions should not proceed at a rate desired by all the true lovers of this country.

